PARK NATIONAL CORP /OH/
Form 10-Q
November 02, 2018
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, 2018

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 ý No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

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

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

Yes ¨ No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 15,698,181 Common shares, no par value per share, outstanding at November 01, 2018.

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, 2018	December 31, 2017
Assets:		
Cash and due from banks	$ 106,578	$ 131,946
Money market instruments	38,026	37,166
Cash and cash equivalents	144,604	169,112
Investment securities:		
Debt securities available-for-sale, at fair value (amortized cost of $1,074,605 and $1,097,645 at September 30, 2018 and December 31, 2017, respectively)	1,032,265	1,091,881
Debt securities held-to-maturity, at amortized cost (fair value of $344,341 and $363,779 at September 30, 2018 and December 31, 2017, respectively)	350,642	357,197
Other investment securities	56,104	63,746
Total investment securities	1,439,011	1,512,824
Loans	5,625,323	5,372,483
Allowance for loan losses	(50,246)	(49,988)
Net loans	5,575,077	5,322,495
Bank owned life insurance	190,290	189,322
Prepaid assets	99,772	97,712
Goodwill and other intangibles	119,999	72,334
Premises and equipment, net	57,515	55,901
Affordable housing tax credit investments	52,116	49,669
Other real estate owned	5,276	14,190
Accrued interest receivable	23,907	22,164
Mortgage loan servicing rights	10,096	9,688
Other	38,828	22,209
Total assets	$ 7,756,491	$ 7,537,620
Liabilities and Shareholders' Equity:		
Deposits:		
Noninterest bearing	$ 1,727,210	$ 1,633,941
Interest bearing	4,552,116	4,183,385
Total deposits	6,279,326	5,817,326
Short-term borrowings	179,818	391,289
Long-term debt	400,000	500,000
Subordinated notes	15,000	15,000
Unfunded commitments in affordable housing tax credit investments	22,282	14,282
Accrued interest payable	3,264	2,278
Other	47,710	41,344
Total liabilities	$ 6,947,400	$ 6,781,519
Shareholders' equity:		
Preferred shares (200,000 shares authorized; 0 shares issued)	$ —	$ —
Common shares (No par value; 20,000,000 shares authorized; 16,586,169 shares issued at September 30, 2018 and 16,150,752 shares issued at December 31, 2017)	357,709	307,726

Retained earnings	603,091	561,908
Treasury shares (899,637 shares at September 30, 2018 and 862,558 shares at December 31, 2017)	(91,559)	(87,079)
Accumulated other comprehensive loss, net of taxes	(60,150)	(26,454)
Total shareholders' equity	809,091	756,101
Total liabilities and shareholders' equity	$ 7,756,491	$ 7,537,620

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,	
	2018	2017	2018	2017
Interest and dividend income:				
Interest and fees on loans	$69,905	$63,110	$198,803	$184,240
Interest and dividends on:				
Obligations of U.S. Government, its agencies and other securities - taxable	7,691	6,757	22,204	20,787
Obligations of states and political subdivisions - tax-exempt	2,205	1,974	6,557	5,098
Other interest income	428	1,383	1,070	2,330
Total interest and dividend income	80,229	73,224	228,634	212,455
Interest expense:				
Interest on deposits:				
Demand and savings deposits	6,412	2,882	13,809	6,787
Time deposits	3,328	2,521	8,765	7,139
Interest on borrowings:				
Short-term borrowings	288	197	1,283	616
Long-term debt	2,525	6,073	7,509	17,632
Total interest expense	12,553	11,673	31,366	32,174
Net interest income	67,676	61,551	197,268	180,281
Provision for loan losses	2,940	3,283	4,586	8,740
Net interest income after provision for loan losses	64,736	58,268	192,682	171,541
Other income:				
Income from fiduciary activities	6,418	5,932	19,479	17,471
Service charges on deposit accounts	2,861	3,216	8,609	9,511
Other service income	3,246	3,357	10,890	9,608
Checkcard fee income	4,352	3,974	12,736	11,775
Bank owned life insurance income	2,585	1,573	4,625	3,790
ATM fees	500	605	1,534	1,708
OREO valuation adjustments	(77)	(22)	(398)	(367)
(Loss) gain on sale of OREO, net	(81)	51	4,093	204
Net loss on sale of investment securities	—	—	(2,271)	—
(Loss) gain on equity securities, net	(326)	—	3,467	—
Other components of net periodic pension benefit income	1,705	1,448	5,115	4,344
Miscellaneous	2,881	3,403	6,330	5,147
Total other income	24,064	23,537	74,209	63,191

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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,	
	2018	2017	2018	2017
Other expense:				
Salaries	$27,229	$ 23,302	$76,652	$ 69,020
Employee benefits	7,653	5,943	22,312	18,617
Occupancy expense	2,976	2,559	8,482	7,759
Furniture and equipment expense	3,807	3,868	11,969	11,126
Data processing fees	2,580	1,919	6,255	5,560
Professional fees and services	8,065	6,100	20,378	16,947
Marketing	1,364	1,122	3,767	3,262
Insurance	1,388	1,499	4,012	4,586
Communication	1,207	1,110	3,646	3,598
State tax expense	1,000	912	3,063	2,918
Amortization of intangibles	289	—	289	—
Miscellaneous	1,758	2,925	5,333	6,330
Total other expense	59,316	51,259	166,158	149,723
Income before income taxes	29,484	30,546	100,733	85,009
Income taxes	4,722	8,434	16,607	23,598
Net income	$24,762	$ 22,112	$84,126	$ 61,411
Earnings per Common Share:				
Basic	$1.58	$ 1.45	$5.46	$ 4.01
Diluted	$1.56	$ 1.44	$5.41	$ 3.99
Weighted average common shares outstanding				
Basic	15,686,542	15,287,974	15,420,135	15,299,039
Diluted	15,832,734	15,351,590	15,560,666	15,394,199
Cash dividends declared	$0.96	$ 0.94	$3.11	$ 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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$24,762	$22,112	$84,126	$61,411
Other comprehensive (loss) income, net of tax:				
Net loss realized on sale of securities, net of income tax benefit of $538 for the nine months ended September 30, 2018	—	—	2,024	—
Unrealized net holding (loss) gain on debt securities available-for-sale, net of federal income tax effect of $(1,364) and $380 for the three months ended September 30, 2018 and 2017, and $(8,217) and $2,551 for the nine months ended September 30, 2018 and 2017, respectively	(5,141)	707	(30,919)	4,740
Other comprehensive (loss) income	$(5,141)	$707	$(28,895)	$4,740
Comprehensive income	$19,621	$22,819	$55,231	$66,151

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 share and per share data)

	Preferred Shares	Common Shares	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive (Loss) Income
Balance at January 1, 2017	$ —	$305,826	$535,631	$(81,472)	$ (17,745)
Net income			61,411		
Other comprehensive income, net of tax					4,740
Dividends on common shares at $2.82 per share			(43,411)		
Cash payment for fractional common shares in dividend reinvestment plan		(4)			
Issuance of 9,674 common shares under share-based compensation awards, net of 3,293 common shares withheld to pay employee income taxes		(795)	(197)	$645	
Repurchase of 70,000 common shares to be held as treasury shares				$(7,378)	
Share-based compensation expense		2,116			
Balance at September 30, 2017	$ —	$307,143	$553,434	$(88,205)	$ (13,005)
Balance at January 1, 2018, as previously presented	$ —	$307,726	$561,908	$(87,079)	$ (26,454)
Cumulative effect of change in accounting principle for marketable equity securities, net of tax			1,917		(995)
Balance at January 1, 2018, as adjusted	—	307,726	563,825	(87,079)	(27,449)
Reclassification of disproportionate income tax effects			3,806		(3,806)
Net income			84,126		
Other comprehensive loss, net of tax					(28,895)
Dividends on common shares at $3.11 per share			(48,349)		
Cash payment for fractional common shares in dividend reinvestment plan		(3)			
Issuance of 435,457 common shares for the acquisition of NewDominion Bank		48,519			
Issuance of 18,800 common shares under share-based compensation awards, net of 5,879 common shares withheld to pay employee income taxes		(1,597)	(317)	1,304	
Repurchase of 50,000 common shares to be held as treasury shares				(5,784)	
Share-based compensation expense		3,064			
Balance at September 30, 2018	$ —	$357,709	$603,091	$(91,559)	$ (60,150)

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	Nine Months Ended September 30,	
	2018	2017
Operating activities:		
Net income	$84,126	$61,411
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,586	8,740
Amortization of loan fees and costs, net	(4,631)	(4,352)
Increase in prepaid dealer premiums	(1,399)	(4,313)
Provision for depreciation	6,446	6,463
Amortization of investment securities, net	932	1,013
Realized net investment securities losses	2,271	—
Gain on equity securities, net	(3,467)	—
Amortization of prepayment penalty on long-term debt	—	4,711
Loan originations to be sold in secondary market	(153,093)	(168,255)
Proceeds from sale of loans in secondary market	154,544	170,703
Gain on sale of loans in secondary market	(3,604)	(3,431)
Share-based compensation expense	3,064	2,116
OREO valuation adjustments	398	367
Gain on sale of OREO, net	(4,093)	(204)
Bank owned life insurance income	(4,625)	(3,790)
Investment in qualified affordable housing tax credits amortization	5,553	5,592
Changes in assets and liabilities:		
Decrease (increase) in other assets	6,575	(5,603)
Increase (decrease) in other liabilities	4,536	(4,502)
Net cash provided by operating activities	$98,119	$66,666
Investing activities:		
Proceeds from the redemption/repurchase of Federal Home Loan Bank stock	$7,004	$—
Proceeds from sales of securities	244,399	—
Proceeds from calls and maturities of:		
Available-for-sale debt securities	151,860	128,736
Held-to-maturity debt securities	10,102	12,264
Purchases of:		
Available-for-sale debt securities	(373,372)	(29,684)
Held-to-maturity debt securities	(4,946)	(96,293)
Equity securities	(2,590)	—
Net loan paydowns (originations), portfolio loans	12,027	(95,808)
Proceeds from the sale of OREO	11,919	2,363
Life insurance death benefits	4,028	1,037
Purchases of premises and equipment	(7,145)	(4,995)
Cash received from acquisitions, net	12,270	—
Net cash provided by (used in) investing activities	$65,556	$(82,380)

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

	Nine Months Ended September 30,	
	2018	2017
Financing activities:		
Net increase in deposits	$177,626	$452,366
Net decrease in short-term borrowings	(211,471)	(201,899)
Proceeds from issuance of long-term debt	25,000	150,000
Repayment of subordinated notes	—	(30,000)
Repayment of long-term debt	(125,000)	—
Value of common shares withheld to pay employee income taxes	(610)	(347)
Repurchase of common shares to be held as treasury shares	(5,784)	(7,378)
Cash dividends paid	(47,944)	(43,122)
Net cash (used in) provided by financing activities	$(188,183)	$319,620
(Decrease) increase in cash and cash equivalents	(24,508)	303,906
Cash and cash equivalents at beginning of year	169,112	146,446
Cash and cash equivalents at end of period	$144,604	$450,352
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$30,424	$31,743
Income taxes	$5,525	$18,690
Non-cash items:		
Loans transferred to OREO	$1,037	$2,991
Loans transferred to repossessed assets	$11,379	$—
New commitments in affordable housing tax credit investments	$8,000	$7,000

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-month and nine-month periods ended September 30, 2018 are not necessarily indicative of the operating results to be anticipated for the fiscal year ending December 31, 2018.

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 United States ("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, 2017 from Park’s 2017 Annual Report to Shareholders (“Park's 2017 Annual Report”). Prior period financial statements reflect the retrospective application of Accounting Standards Update ("ASU") 2017-07 - Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This change in classification had no effect on reported net income.

Park’s significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in Park’s 2017 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 - Adoption of New Accounting Pronouncements and Issued But Not Yet Effective Accounting Standards

The following is a summary of new accounting pronouncements impacting Park's consolidated financial statements, and issued but not yet effective accounting standards:

Adoption of New Accounting Pronouncements

ASU 2014-09 - Revenue from Contracts with Customers (Topic 606): In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This 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. The majority of the Company's revenues come from interest income and other sources, including loans, leases, securities and derivatives, that are outside the scope of ASC 606. Certain services that fall within the scope of ASC 606 are presented within Other Income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include income from fiduciary activities, service charges on deposit accounts, other service income, checkcard fee income, ATM fees, and gain (loss) on sale of OREO, net. The adoption of this guidance on January 1, 2018 did not have a material impact on Park's consolidated financial statements. However, the adoption of this standard resulted in additional disclosures beginning with the first quarter 2018 Form 10-Q. Reference Note 20 - Revenue from Contracts with Customers, for further discussion on the Company's accounting policies for revenue sources within the scope of ASC 606.

ASU 2016-01 - Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. In January 2016, the FASB issued ASU 2016-01 - Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Changes reflected in the current U.S. GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, this ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale ("AFS") securities. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2017. The adoption of this guidance on January 1, 2018 resulted in an $1.9 million increase to beginning retained earnings and a $995,000 increase to beginning accumulated other comprehensive loss. Additional income of $3.2 million, $1.3 million and $89,000 was recorded in the first, second and third quarters of 2018, respectively, as a result of changes to the accounting for equity investments. Further, beginning with the first quarter of 2018, Park's fair value disclosures in Note 16 - Fair Value, have incorporated the revised disclosure requirements for financial investments.

ASU 2016-15 - Statement of Cash Flows (Topic 203): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force): In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 203): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). This ASU provides guidance on eight specific cash flow issues where then current GAAP was either unclear or did not include specific guidance. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. The adoption of this guidance on January 1, 2018 did not have an impact on Park's consolidated financial statements. As such transactions arise, management will utilize the updated guidance in providing disclosures within Park's consolidated condensed statements of cash flows.

ASU 2017-07 - Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost: In March 2017, the FASB issued ASU 2017-07 - Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. As a result of the adoption of this guidance on January 1, 2018, all prior periods have been recast to separately record the service cost component and other components of net benefit cost. For all periods presented, this resulted in an increase in other income and an offsetting increase in other expense with no change to net income. See Note 14 - Benefit Plans, for further details.

ASU 2017-09 - Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting: In May 2017, the FASB issued ASU 2017-09 - Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU amends the guidance concerning which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting under Topic 718. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. The adoption of this guidance on January 1, 2018 did not impact Park's consolidated financial statements.

ASU 2017-12 - Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities: In August 2017, the FASB issued ASU 2017-12 - Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU amends the current guidance with the objective of improving the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition, this ASU amends the current guidance to simplify the application of the hedge accounting guidance. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted for interim or annual periods. The early adoption of this guidance on July 1, 2018 did not have an impact on Park's consolidated financial statements. Park will apply this guidance to future transactions.

ASU 2018-02 - Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income: In February 2018, the FASB issued ASU 2018-02 - Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects, resulting from the federal corporate income tax rate enacted under the Tax Cuts and Jobs Act. The amount of the reclassification is the difference between the historical federal corporate income tax rate and the newly-enacted 21% federal corporate income tax rate. The guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted for interim or annual periods. The early adoption of this guidance effective January 1, 2018 resulted in a $3.8 million increase to Park's accumulated other comprehensive loss and a $3.8 million increase to retained earnings.

ASU 2018-03 - Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. In February 2018, the FASB issued ASU 2018-03 - Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This ASU includes amendments that clarify certain aspects of the guidance issued in ASU 2016-01. Park considered this clarification in determining the appropriate adoption of ASU 2016-01 effective as of January 1, 2018.

Issued But Not Yet Effective Accounting Standards

ASU 2016-02 - Leases (Topic 842): In February 2016, the FASB issued ASU 2016-02 - Leases (Topic 842). This ASU will require all organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Additional qualitative and quantitative disclosures will be required so that users can understand more about the nature of an entity’s leasing activities. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. Management is currently analyzing data on leased assets and is in the process of implementing a software solution to assist in the adoption of this ASU. The adoption of this guidance is expected to increase both assets and liabilities, but is not expected to have a material impact on Park's consolidated statement of income.

ASU 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments: In June 2016, FASB issued ASU 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new guidance replaces the incurred loss model with an expected loss model, which is referred to as the current expected credit loss ("CECL") model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity ("HTM") debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. The CECL model requires an entity to estimate credit losses over the life of an asset or off-balance sheet exposure. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2018.

Management is currently evaluating the impact of the adoption of this guidance on Park's consolidated financial statements. We anticipate that the adoption of the CECL model will result in a material increase to Park's allowance for loan losses. Management has established a committee to oversee the implementation of the CECL model and is currently in the process of implementing a software solution to assist in the adoption of this ASU. Management plans to run our current allowance model and a CECL model concurrently for 12 months prior to the adoption of this guidance on January 1, 2020.

ASU 2017-08 - Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities: In March 2017, the FASB issued ASU 2017-08 - Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. This ASU amends the amortization period for certain purchased callable debt securities held at a premium. It shortens the amortization period for the premium to the earliest call date. Under current U.S. GAAP, premiums on callable debt securities generally are amortized to the maturity date. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted for interim or annual periods. The adoption of this guidance is not expected to have a material impact on Park's consolidated financial statements.

ASU 2018-10 - Codification Improvements to Topic 842, Leases: In July 2018, the FASB issued ASU 2018-10 - Codification Improvements to Topic 842, Leases. This ASU includes amendments that clarify certain aspects of the guidance issued in ASU 2016-02. Park will consider this clarification in determining the appropriate adoption of ASU 2016-02, effective for annual and interim reporting periods within those annual periods, beginning after December 15, 2018.

ASU 2018-11 - Leases (Topic 842): Targeted Improvements: In July 2018, the FASB issued ASU 2018-11 - Leases (Topic 842): Targeted Improvements. This ASU amends the guidance in ASU 2016-02 which is not yet effective. The amendments in the ASU provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings for the period of adoption. Additionally, this amendment provides lessors with a practical expedient, by class of asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if certain criteria are met. Park will consider this clarification in determining the appropriate adoption of ASU 2016-02, effective for annual and interim reporting periods within those annual periods, beginning after December 15, 2018.

ASU 2018-13 - Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement: In August 2018, the FASB issued ASU 2018-13 - Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement by removing, modifying and adding certain requirements. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted upon issuance of this ASU. An entity is permitted to early adopt and remove or modify disclosures upon issuance of the ASU and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not have an impact on Park's consolidated financial statements, but will impact disclosures.

ASU 2018-14 - Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans: In August 2018, the FASB issued ASU 2018-14 - Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans. This amendments in this ASU modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by removing disclosures that are no longer considered cost beneficial, clarifying the specific requirements of disclosures and adding disclosure requirements identified as relevant. The amendments in this ASU are effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The adoption of this guidance will not have an impact on Park's consolidated financial statements, but will impact disclosures.

Note 3 - Business Combinations

On July 1, 2018, NewDominion Bank, a North Carolina state-chartered bank ("NewDominion"), merged with and into The Park National Bank, the national bank subsidiary of Park ("PNB"), with PNB continuing as the surviving entity pursuant to the Agreement and Plan of Merger and Reorganization (the "Merger Agreement"), dated as of January 22, 2018, by and among Park, PNB, and NewDominion. In accordance with the Merger Agreement, NewDominion shareholders were permitted to make an election to receive for their shares of NewDominion common stock either $1.08 in cash without interest (the cash consideration) or 0.01023 of a Park common share, plus cash in lieu of any fractional Park common share (the stock consideration). Based on the terms of the Merger Agreement, the aggregate consideration to be paid in the merger was subject to proration and allocation procedures to ensure that 60 percent of the shares of NewDominion common stock outstanding immediately prior to the completion of the merger were exchanged for the stock consideration and that the remaining 40 percent of the shares of NewDominion common stock outstanding immediately prior to the completion of the merger were to be exchanged for the cash consideration, including, in each case, shares of NewDominion common stock subject to NewDominion options and restricted stock awards.

Purchase consideration consisted of 435,457 Park common shares, valued at $48.5 million, and $30.7 million in cash to acquire 91.45% of NewDominion outstanding common shares. The remaining 8.55% of NewDominion's outstanding common shares were previously held by Park. Park recognized a gain of $3.5 million as a result of remeasuring to fair value its 8.55% equity interest in NewDominion held before the business combination. The gain is included in "(Loss) gain on equity securities, net" in the consolidated condensed statements of income. The acquisition is expected to provide additional revenue growth and geographic diversification.

NewDominion's results of operations were included in Park's results beginning July 1, 2018. For the nine months ended September 30, 2018, Park recorded merger-related expenses of $3.6 million associated with the NewDominion acquisition. Of this $3.6 million in expense, $1.8 million is included within "Professional fees and services", $1.6 million is included within "Salaries", $78,000 is included within "Employee benefits", and $197,000 is included within "Miscellaneous", in each case within "Other expense" on the consolidated condensed statements of income.

Goodwill of $40.4 million arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the operations of the PNB and NewDominion. The goodwill is not deductible for income tax purposes as the transaction was accounted for as a tax-free exchange.

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The following table summarizes the consideration paid for NewDominion and the amounts of the assets acquired and liabilities assumed at their fair value:

(in thousands)	
Consideration	
Cash	$30,684
Equity instruments	48,519
Previous 8.55% investment in NewDominion	7,000
Fair value of total consideration transferred	$86,203
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$42,954
Securities	1,954
Loans	272,753
Premises and equipment	940
Core deposit intangibles	6,249
Trade name intangible	1,300
Other assets	6,133
Total assets acquired	$332,283
Deposits	284,231
Other liabilities	2,254
Total liabilities assumed	286,485
Net identifiable assets	45,798
Goodwill	$40,405

Park accounted for the NewDominion acquisition using the acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date, in accordance with FASB ASC Topic 805, Business Combinations. The fair value measurements of assets acquired and liabilities assumed are subject to refinement for up to one year after the closing date of the acquisition as additional information relative to closing date fair values becomes available. Park continues to finalize the fair values of loans, intangible assets, and deferred taxes. As a result, the fair value adjustments are preliminary and may change as information becomes available. Fair value adjustments will be finalized no later than July 2019.

The fair value of net assets acquired includes fair value adjustments to loans that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, Park believes that all contractual cash flows related to these loans will be collected. As such, these loans were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. Loans acquired that were not subject to these requirements included non-impaired loans with a fair value and gross contractual amounts receivable of $267.9 million and $272.9 million, respectively, on the date of acquisition.

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The table below presents information with respect to the fair value of acquired loans as well as their book balance at the acquisition date.

(in thousands)	Book Balance	Fair Value
Commercial, financial and agricultural	$19,246	$19,138
Commercial real estate	119,434	117,638
Construction real estate:		
Commercial	22,494	22,235
Mortgage	8,391	8,111
Residential real estate:		
Commercial	14,798	14,797
Mortgage	50,295	48,714
HELOC	37,651	36,688
Consumer	541	539
Purchased credit impaired	5,069	4,893
Total loans	$277,919	$272,753

The following table presents supplemental pro forma information as if the acquisition had occurred at the beginning of 2017. The unaudited pro forma information includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, depreciation expense on property acquired, interest expense on deposits acquired, and the related tax effects. The pro forma information is not necessarily indicative of the results of operations that would have occurred had the transactions been effected on the assumed dates.

	Nine months ended September 30,	
(dollars in thousands, except per share data)	2018	2017
Net interest income	204,074	190,461
Net income	88,102	62,775
Basic earnings per share	5.61	3.99
Diluted earnings per share	5.51	3.97

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Note 4 – Loans

The composition of the loan portfolio, by class of loan, as of September 30, 2018 and December 31, 2017 was as follows:

	September 30, 2018			December 31, 2017		
(In thousands)	Loan Balance	Accrued Interest Receivable	Recorded Investment	Loan Balance	Accrued Interest Receivable	Recorded Investment
Commercial, financial and agricultural *	$1,031,500	$ 5,606	$1,037,106	$1,053,453	$ 4,413	$1,057,866
Commercial real estate *	1,302,630	5,169	1,307,799	1,167,607	4,283	1,171,890
Construction real estate:						
Commercial	151,757	474	152,231	125,389	401	125,790
Mortgage	65,842	158	66,000	52,203	133	52,336
Installment	2,597	8	2,605	3,878	13	3,891
Residential real estate:						
Commercial	403,147	1,156	404,303	393,094	1,029	394,123
Mortgage	1,140,648	1,719	1,142,367	1,110,426	1,516	1,111,942
HELOC	221,632	964	222,596	203,178	974	204,152
Installment	15,556	43	15,599	18,526	53	18,579
Consumer	1,287,382	3,773	1,291,155	1,241,736	3,808	1,245,544
Leases	2,632	40	2,672	2,993	36	3,029
Total loans	$5,625,323	$ 19,110	$5,644,433	$5,372,483	$ 16,659	$5,389,142

* Included within each of 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 $12.4 million at September 30, 2018 and $12.2 million at December 31, 2017, which represented a net deferred income position in both periods. At September 30, 2018, loans included a purchase accounting adjustment of $5.1 million, which represented a net deferred income position. This fair market value adjustment is expected to be recognized into interest income on a level yield basis over the remaining expected life of the loans.

Overdrawn deposit accounts of $1.1 million and $1.9 million had been reclassified to loans at September 30, 2018 and December 31, 2017, 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, 2018 and December 31, 2017:

	September 30, 2018			
(In thousands)	Nonaccrual Loans	Accruing TDRs	Loans Past Due 90 Days or More and Accruing	Total Nonperforming Loans
Commercial, financial and agricultural	$15,837	$264	$ 16	$ 16,117
Commercial real estate	22,806	2,999	—	25,805
Construction real estate:				
Commercial	2,016	—	—	2,016
Mortgage	16	16	—	32
Installment	21	12	—	33
Residential real estate:				
Commercial	2,786	127	—	2,913
Mortgage	17,411	8,175	720	26,306
HELOC	1,901	1,251	144	3,296
Installment	410	1,074	—	1,484
Consumer	3,450	789	1,203	5,442
Total loans	$66,654	$14,707	$ 2,083	$ 83,444

	December 31, 2017			
(In thousands)	Nonaccrual Loans	Accruing TDRs	Loans Past Due 90 Days or More and Accruing	Total Nonperforming Loans
Commercial, financial and agricultural	$16,773	$1,291	$ —	$ 18,064
Commercial real estate	12,979	5,163	—	18,142
Construction real estate:				
Commercial	986	338	—	1,324
Mortgage	8	92	—	100
Installment	52	—	—	52
Residential real estate:				
Commercial	18,835	224	—	19,059
Mortgage	16,841	10,766	568	28,175
HELOC	1,593	1,025	14	2,632
Installment	586	616	7	1,209
Consumer	3,403	662	1,256	5,321
Total loans	$72,056	$20,177	$ 1,845	$ 94,078

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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, 2018 and December 31, 2017.

(In thousands)	September 30, 2018			December 31, 2017		
	Nonaccrual and Accruing TDRs	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Nonaccrual and Accruing TDRs	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment
Commercial, financial and agricultural	$16,101	$ 16,026	$ 75	$18,064	$ 18,039	$ 25
Commercial real estate	25,805	25,805	—	18,142	18,142	—
Construction real estate:						
Commercial	2,016	2,016	—	1,324	1,324	—
Mortgage	32	—	32	100	—	100
Installment	33	—	33	52	—	52
Residential real estate:						
Commercial	2,913	2,913	—	19,059	19,059	—
Mortgage	25,586	—	25,586	27,607	—	27,607
HELOC	3,152	—	3,152	2,618	—	2,618
Installment	1,484	—	1,484	1,202	—	1,202
Consumer	4,239	—	4,239	4,065	—	4,065
Total loans	$81,361	$ 46,760	$ 34,601	$92,233	$ 56,564	$ 35,669

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, together with the related allowance recorded, as of September 30, 2018 and December 31, 2017.

(In thousands)	September 30, 2018			December 31, 2017		
	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	$18,067	$ 12,801	$ —	$19,899	$ 14,704	$ —
Commercial real estate	24,518	24,004	—	18,974	18,060	—
Construction real estate:						
Commercial	4,829	2,016	—	2,788	1,324	—
Residential real estate:						
Commercial	3,004	2,716	—	19,346	19,012	—
With an allowance recorded:						
Commercial, financial and agricultural	5,317	3,225	1,716	5,394	3,335	681
Commercial real estate	1,832	1,801	71	137	82	2
Construction real estate:						
Commercial	—	—	—	—	—	—
Residential real estate:						
Commercial	200	197	59	47	47	1

Consumer	—	—	—	—	—	—
Total	$57,767	$ 46,760	$ 1,846	$66,585	$ 56,564	$ 684

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, 2018 and December 31, 2017, there were $8.9 million and $7.9 million, respectively, of partial charge-offs on loans individually evaluated for impairment with no related allowance recorded. At both September 30, 2018 and December 31, 2017, there were $2.1 million of partial charge-offs on loans individually evaluated for impairment that also had a specific reserve allocated.

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The allowance for loan losses included specific reserves related to loans individually evaluated for impairment at September 30, 2018 and December 31, 2017 of $1.8 million and $0.7 million, respectively. These loans with specific reserves had a recorded investment of $5.2 million and $3.5 million as of September 30, 2018 and December 31, 2017, respectively.

Interest income on nonaccrual loans individually evaluated for impairment is recognized on a cash basis only when Park expects to receive the entire recorded investment of the loan. Interest income on accruing TDRs individually evaluated for impairment continues to be recorded on an accrual basis. 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, 2018 and September 30, 2017:

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
(In thousands)	Recorded Investment as of September 30, 2018	Average Recorded Investment	Interest Income Recognized	Recorded Investment as of September 30, 2017	Average Recorded Investment	Interest Income Recognized
Commercial, financial and agricultural	$16,026	$ 23,247	$ 187	$29,848	$ 28,412	$ 398
Commercial real estate	25,805	26,428	268	22,995	22,241	192
Construction real estate:						
Commercial	2,016	2,246	4	1,460	1,554	18
Residential real estate:						
Commercial	2,913	2,758	26	19,298	20,365	46
Consumer	—	—	—	8	8	—
Total	$46,760	$ 54,679	$ 485	$73,609	$ 72,580	$ 654

	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
(In thousands)	Recorded Investment as of September 30, 2018	Average Recorded Investment	Interest Income Recognized	Recorded Investment as of September 30, 2017	Average Recorded Investment	Interest Income Recognized
Commercial, financial and agricultural	$16,026	$ 22,686	$ 506	$29,848	$ 23,770	$ 738
Commercial real estate	25,805	21,582	671	22,995	22,470	663
Construction real estate:						
Commercial	2,016	1,661	31	1,460	1,830	49
Residential real estate:						
Commercial	2,913	6,086	84	19,298	20,876	452
Consumer	—	—	—	8	7	—
Total	$46,760	$ 52,015	$ 1,292	$73,609	$ 68,953	$ 1,902

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The following tables present the aging of the recorded investment in past due loans as of September 30, 2018 and December 31, 2017 by class of loan.

	September 30, 2018				
(In thousands)	Accruing Loans Past Due 30-89 Days	Past Due Nonaccrual Loans and Loans Past Due 90 Days or More and Accruing (1)	Total Past Due	Total Current (2)	Total Recorded Investment
Commercial, financial and agricultural	$2,769	$ 1,817	$ 4,586	$ 1,032,520	$ 1,037,106
Commercial real estate	96	1,425	1,521	1,306,278	1,307,799
Construction real estate:					
Commercial	—	1,837	1,837	150,394	152,231
Mortgage	241	—	241	65,759	66,000
Installment	179	21	200	2,405	2,605
Residential real estate:					
Commercial	79	1,268	1,347	402,956	404,303
Mortgage	13,669	8,241	21,910	1,120,457	1,142,367
HELOC	749	1,089	1,838	220,758	222,596
Installment	273	212	485	15,114	15,599
Consumer	10,221	2,251	12,472	1,278,683	1,291,155
Leases	—	—	—	2,672	2,672
Total loans	$28,276	$ 18,161	$ 46,437	$ 5,597,996	$ 5,644,433

(1) Includes $2.1 million of loans past due 90 days or more and accruing. The remaining loans were past due nonaccrual loans.
(2) Includes $50.1 million of nonaccrual loans which were current in regards to contractual principal and interest payments.

	December 31, 2017				
(in thousands)	Accruing Loans Past Due 30-89 Days	Past Due Nonaccrual Loans and Loans Past Due 90 Days or More and Accruing (1)	Total Past Due	Total Current (2)	Total Recorded Investment
Commercial, financial and agricultural	$145	$ 1,043	$ 1,188	$ 1,056,678	$ 1,057,866
Commercial real estate	856	2,360	3,216	1,168,674	1,171,890
Construction real estate:					
Commercial	29	—	29	125,761	125,790
Mortgage	256	—	256	52,080	52,336
Installment	54	19	73	3,818	3,891
Residential real estate:					
Commercial	16	1,586	1,602	392,521	394,123
Mortgage	11,515	9,232	20,747	1,091,195	1,111,942
HELOC	616	876	1,492	202,660	204,152
Installment	239	253	492	18,087	18,579
Consumer	11,515	2,407	13,922	1,231,622	1,245,544
Leases	—	—	—	3,029	3,029

Total loans	$25,241	$ 17,776	$ 43,017	$ 5,346,125	$ 5,389,142

(1) Includes $1.8 million of loans past due 90 days or more and accruing. The remaining loans were past due nonaccrual loans.
(2) Includes $56.1 million of nonaccrual loans which were current in regards to contractual principal and interest payments.

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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, 2018 and December 31, 2017 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 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 a 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 placed on nonaccrual status and 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, 2018 and December 31, 2017 for all commercial loans:

	September 30, 2018					
(In thousands)	5 Rated	6 Rated	Nonaccrual and Accruing TDRs	Purchase Credit Impaired	Pass-Rated	Recorded Investment
Commercial, financial and agricultural *	$980	$ 451	$ 16,101	$ 405	$1,019,169	$1,037,106
Commercial real estate *	2,147	—	25,805	3,546	1,276,301	1,307,799
Construction real estate:						
Commercial	1,588	—	2,016	499	148,128	152,231
Residential real estate:						
Commercial	195	44	2,913	44	401,107	404,303
Leases	—	—	—	—	2,672	2,672
Total commercial loans	$4,910	$ 495	$ 46,835	$ 4,494	$2,847,377	$2,904,111

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

	December 31, 2017					
(In thousands)	5 Rated	6 Rated	Nonaccrual and Accruing TDRs	Purchase Credit Impaired	Pass-Rated	Recorded Investment
Commercial, financial and agricultural *	$17,272	$ 153	$ 18,064	$ —	$1,022,377	$1,057,866
Commercial real estate *	5,322	457	18,142	—	1,147,969	1,171,890
Construction real estate:						
Commercial	278	—	1,324	—	124,188	125,790
Residential real estate:						
Commercial	216	1	19,059	—	374,847	394,123
Leases	—	—	—	—	3,029	3,029
Total Commercial Loans	$23,088	$ 611	$ 56,589	$ —	$2,672,410	$2,752,698

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

Purchase Credit Impaired ("PCI") Loans

In conjunction with the NewDominion acquisition, Park acquired loans with a book value of $277.9 million as of July 1, 2018. These loans were recorded at the preliminary fair value of $272.8 million.

Loans acquired with deteriorated credit quality with a book value of $5.1 million were recorded at the preliminary fair value of $4.9 million. The carrying amount of loans acquired with deteriorated credit quality at September 30, 2018 was $4.5 million, while the outstanding customer balance was $4.7 million. At September 30, 2018, no allowance for loan losses had been recognized related to the acquired impaired loans.

The following table provides changes in accretable discount for loans acquired with deteriorated credit quality:

	For the Nine Months Ended	
(in thousands)	September 30, 2018	September 30, 2017
Balance at the beginning of the period	$ —	$ —
Acquisitions	176	—
Reductions due to change in projected cash flows	—	—
Reclass from non-accretable difference	—	—
Transfers out	11	—
Accretion	—	—
Balance at end of period	$ 165	$ —

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. A court's discharge of a borrower's debt in a Chapter 7 bankruptcy is considered a concession when the borrower does not reaffirm the discharged debt.

Certain loans which were modified during the three-month periods ended September 30, 2018 and September 30, 2017 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.

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Quarterly, 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 did 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 if 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 removed on $0.2 million of loans during the three-month period ended September 30, 2018 and on $2.4 million of loans during the nine-month period ended September 30, 2018. There were no TDR classifications removed during the three-month or nine-month periods ended September 30, 2017.

At September 30, 2018 and December 31, 2017, there were $25.2 million and $38.5 million, respectively, of TDRs included in the nonaccrual loan totals. At September 30, 2018 and December 31, 2017, $19.4 million and $32.4 million, respectively, of these nonaccrual TDRs were performing in accordance with the terms of the restructured note. As of September 30, 2018 and December 31, 2017, loans with a recorded investment of $14.7 million and $20.2 million, respectively, were included in accruing TDR loan totals. Management will continue to review the restructured loans and may determine it is appropriate to move certain nonaccrual TDRs to accrual status in the future.

At September 30, 2018 and December 31, 2017, Park had commitments to lend $0.2 million and $1.3 million, respectively, of additional funds to borrowers whose outstanding loan terms had been modified in a TDR.

At September 30, 2018 and December 31, 2017, there were $0.9 million and $0.5 million of specific reserves related to TDRs. Modifications made in 2017 and 2018 were largely the result of renewals and extending the maturity date of the loans at terms consistent with the original notes. 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 $150,000 were recorded during the three-month period ended September 30, 2018 as a result of TDRs identified in the period. There were no additional specific reserves recorded during the three-month period ended September 30, 2017 as a result of TDRs identified in the period. Additional specific reserves of $160,000 and $290,000 were recorded during the nine-month periods ended September 30, 2018 and September 30, 2017, respectively, as a result of TDRs identified in the respective periods.

The terms of certain other loans were modified during the three-month and nine-month periods ended September 30, 2018 and September 30, 2017 that did not meet the definition of a TDR. There were no substandard commercial loans modified during the three-month period ended September 30, 2018 which did not meet the definition of a TDR. Substandard commercial loans modified during the nine-month period ended September 30, 2018 which did not meet the definition of a TDR had a total recorded investment of $0.2 million. Substandard commercial loans modified during the three-month and nine-month periods ended September 30, 2017 which did not meet the definition of a TDR had a total recorded investment of $0.9 million and $1.0 million, respectively. The renewal/modification of these loans: (1) resulted in a delay in a payment that was considered to be insignificant, or (2) resulted in Park obtaining additional collateral or guarantees that improved the likelihood of the ultimate collection of the loans such that each modification was deemed to be at market terms. Consumer loans modified during the three-month and nine-month periods ended September 30, 2018 which did not meet the definition of a TDR had a total recorded investment of $6.6 million and $17.0 million, respectively. Consumer loans with a recorded investment of $3.1 million and $6.7 million were modified during the three-month and nine-month periods ended September 30, 2017, respectively, and did not meet the definition of a TDR. Many of these loans were to borrowers who were not experiencing financial difficulties but who were looking to reduce their cost of funds.

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The following tables detail the number of contracts modified as TDRs during the three-month periods ended September 30, 2018 and September 30, 2017, as well as the recorded investment of these contracts at September 30, 2018 and September 30, 2017. The recorded investment pre- and post-modification is generally the same due to the fact that Park does not typically forgive principal.

	Three Months Ended September 30, 2018			
(In thousands)	Number of Contracts	Accruing	Nonaccrual	Total Recorded Investment
Commercial, financial and agricultural	8	$ 22	$ 552	$ 574
Commercial real estate	3	—	1,154	1,154
Construction real estate:				
Commercial	—	—	—	—
Mortgage	—	—	—	—
Installment	—	—	—	—
Residential real estate:				
Commercial	2	55	249	304
Mortgage	4	—	246	246
HELOC	10	453	16	469
Installment	8	336	—	336
Consumer	71	31	590	621
Total loans	106	$ 897	$ 2,807	$ 3,704

	Three Months Ended September 30, 2017			
(In thousands)	Number of Contracts	Accruing	Nonaccrual	Total Recorded Investment
Commercial, financial and agricultural	14	$ 400	$ 1,015	$ 1,415
Commercial real estate	3	974	481	1,455
Construction real estate:				
Commercial	—	—	—	—
Mortgage	—	—	—	—
Installment	—	—	—	—
Residential real estate:				
Commercial	10	144	354	498
Mortgage	5	211	206	417
HELOC	4	123	45	168
Installment	4	110	41	151
Consumer	99	99	735	834
Total loans	139	$ 2,061	$ 2,877	$ 4,938

Of those loans which were modified and determined to be a TDR during the three-month period ended September 30, 2018, $0.1 million were on nonaccrual status as of December 31, 2017. Of those loans which were modified and determined to be a TDR during the three-month period ended September 30, 2017, $0.5 million were on nonaccrual status as of December 31, 2016.

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(In thousands)	Nine Months Ended September 30, 2018 Number of Contracts	Accruing	Nonaccrual	Total Recorded Investment
Commercial, financial and agricultural	16	$ 208	$ 592	$ 800
Commercial real estate	10	447	1,412	1,859
Construction real estate:				
Commercial	1	—	—	—
Mortgage	—	—	—	—
Installment	2	12	—	12
Residential real estate:				
Commercial	2	55	249	304
Mortgage	17	90	972	1,062
HELOC	18	735	125	860
Installment	17	437	16	453
Consumer	206	59	1,157	1,216
Total loans	289	$ 2,043	$ 4,523	$ 6,566

(In thousands)	Nine Months Ended September 30, 2017 Number of Contracts	Accruing	Nonaccrual	Total Recorded Investment
Commercial, financial and agricultural	25	$ 400	$ 3,769	$ 4,169
Commercial real estate	9	1,525	795	2,320
Construction real estate:				
Commercial	—	—	—	—
Mortgage	1	—	8	8
Installment	—	—	—	—
Residential real estate:				
Commercial	15	144	558	702
Mortgage	24	746	923	1,669
HELOC	16	478	51	529
Installment	7	175	41	216
Consumer	228	140	1,012	1,152
Total loans	325	$ 3,608	$ 7,157	$ 10,765

Of those loans which were modified and determined to be a TDR during the nine-month period ended September 30, 2018, $0.5 million were on nonaccrual status as of December 31, 2017. Of those loans which were modified and determined to be a TDR during the nine-month period ended September 30, 2017, $3.0 million were on nonaccrual status as of December 31, 2016.

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The following table presents the recorded investment in loans 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, 2018 and September 30, 2017, respectively. For this table, 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, 2018		Three Months Ended September 30, 2017	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial, financial and agricultural	1	$ 1	1	$ 20
Commercial real estate	—	—	1	72
Construction real estate:				
Commercial	—	—	—	—
Mortgage	—	—	—	—
Installment	—	—	—	—
Residential real estate:				
Commercial	—	—	1	17
Mortgage	8	688	6	427
HELOC	3	108	2	27
Installment	—	—	—	—
Consumer	40	315	33	262
Leases	—	—	—	—
Total loans	52	$ 1,112	44	$ 825

Of the $1.1 million in modified TDRs which defaulted during the three-month period ended September 30, 2018, $67,000 were accruing loans and $1.0 million were nonaccrual loans. Of the $0.8 million in modified TDRs which defaulted during the three-month period ended September 30, 2017, all were nonaccrual loans.

(In thousands)	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial, financial and agricultural	1	$ 1	1	$ 20
Commercial real estate	—	—	2	248
Construction real estate:				
Commercial	—	—	—	—
Mortgage	—	—	—	—
Installment	—	—	—	—
Residential real estate:				
Commercial	—	—	1	17
Mortgage	9	789	6	426
HELOC	3	108	3	32
Installment	—	—	—	—
Consumer	50	392	45	345

Leases	—	—	—	—
Total loans	63	$ 1,290	58	$ 1,088

Of the $1.3 million in modified TDRs which defaulted during the nine-month period ended September 30, 2018, $67,000 were accruing loans and $1.2 million were nonaccrual loans. Of the $1.1 million in modified TDRs which defaulted during the nine-month period ended September 30, 2017, $2,000 were accruing loans and $1.1 million were nonaccrual loans.

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Note 5 – Allowance for Loan Losses

The allowance for loan losses ("ALLL") 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 2017 Annual Report.

Loss factors are reviewed quarterly and updated at least annually to reflect recent loan loss history and incorporate current risks and trends which may not be recognized in historical data. The following are factors management reviews on a quarterly or annual basis.

- Historical Loss Factor: Management updated the historical loss calculation during the fourth quarter of 2017, incorporating net charge-offs plus changes in specific reserves through December 31, 2017. With the addition of 2017 historical losses, management extended the historical loss period to 96 months from 84 months. The 96-month historical loss period captures all annual periods subsequent to June 2009, the end of the most recent recession, thus encompassing the full economic cycle to date.

- Loss Emergence Period Factor: At least annually, management calculates the loss emergence period for each commercial loan segment. The loss emergence period is calculated based upon the average period of time it takes from the probable occurrence of a loss event to the credit being moved to nonaccrual. If the loss emergence period for any commercial loan segment is greater than one year, management applies additional general reserves to all performing loans within that segment of the commercial loan portfolio. The loss emergence period was last updated in the fourth quarter of 2017.

- Loss Migration Factor: Park's commercial loans are individually risk graded. If loan downgrades occur, the probability of default increases, and accordingly, management allocates a higher percentage reserve to those accruing commercial loans graded special mention and substandard. Annually, management calculates a loss migration factor for each commercial loan segment for special mention and substandard credits based on a review of losses over the period of time a loan takes to migrate from pass-rated to impaired. The loss migration factor was last updated in the fourth quarter of 2017.

- Environmental Loss Factor: Management has identified certain macroeconomic factors that trend in accordance with losses in Park's commercial loan portfolio. These macroeconomic factors are reviewed quarterly and the adjustments made to the environmental loss factor impacting each segment in the performing commercial loan portfolio correlate to changes in the macroeconomic environment. There was no change to the environmental loss factor during the third quarter of 2018.

Loans acquired as part of the acquisition of NewDominion were recorded at fair value on the date of acquisition, July 1, 2018. An allowance is only established on these NewDominion loans as a result of credit deterioration post acquisition. As of September 30, 2018, there was no allowance related to acquired NewDominion loans.

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The activity in the allowance for loan losses for the three-month and nine-month periods ended September 30, 2018 and September 30, 2017 is summarized in the following tables.

	Three Months Ended September 30, 2018						
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Beginning balance	$14,478	$ 9,406	$ 4,652	$ 9,245	$ 11,671	$ —	$49,452
Charge-offs	993	23	26	61	2,371	—	3,474
Recoveries	136	27	156	130	875	4	1,328
Net charge-offs/(recoveries)	857	(4)	(130)	(69)	1,496	(4)	2,146
Provision/(recovery)	1,394	337	(187)	(212)	1,612	(4)	2,940
Ending balance	$15,015	$ 9,747	$ 4,595	$ 9,102	$ 11,787	$ —	$50,246

	Three Months Ended September 30, 2017						
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Beginning balance	$16,746	$ 10,451	$ 4,677	$ 10,319	$ 11,629	$ —	$53,822
Charge-offs	626	628	78	217	2,828	—	4,377
Recoveries	115	13	303	1,061	1,011	1	2,504
Net charge-offs/(recoveries)	511	615	(225)	(844)	1,817	(1)	1,873
Provision/(recovery)	1,742	336	499	(1,078)	1,785	(1)	3,283
Ending balance	$17,977	$ 10,172	$ 5,401	$ 10,085	$ 11,597	$ —	$55,232

	Nine Months Ended September 30, 2018						
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Beginning balance	$15,022	$ 9,601	$ 4,430	$ 9,321	$ 11,614	$ —	$49,988
Charge-offs	1,929	252	57	279	7,123	—	9,640
Recoveries	994	203	435	734	2,942	4	5,312
Net charge-offs/(recoveries)	935	49	(378)	(455)	4,181	(4)	4,328
Provision/(recovery)	928	195	(213)	(674)	4,354	(4)	4,586
Ending balance	$15,015	$ 9,747	$ 4,595	$ 9,102	$ 11,787	$ —	$50,246

	Nine Months Ended September 30, 2017						
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							

Beginning balance	$13,434	$ 10,432	$ 5,247	$ 10,958	$ 10,553	$ —	$50,624
Charge-offs	1,283	1,050	105	987	7,706	—	11,131
Recoveries	647	368	686	1,688	3,609	1	6,999
Net charge-offs/(recoveries)	636	682	(581)	(701)	4,097	(1)	4,132
Provision/(recovery)	5,179	422	(427)	(1,574)	5,141	(1)	8,740
Ending balance	$17,977	$ 10,172	$ 5,401	$ 10,085	$ 11,597	$ —	$55,232

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Loans collectively evaluated for impairment in the following tables include all performing loans at September 30, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, 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 2017 Annual Report).

The composition of the allowance for loan losses at September 30, 2018 and December 31, 2017 was as follows:

	September 30, 2018						
(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	$1,716	$71	$—	$59	$—	$—	$1,846
Collectively evaluated for impairment	13,299	9,676	4,595	9,043	11,787	—	48,400
Acquired with deteriorated credit quality	—	—	—	—	—	—	—
Total ending allowance balance	$15,015	$9,747	$4,595	$9,102	$11,787	$—	$50,246
Loan balance:							
Loans individually evaluated for impairment	$16,023	$25,747	$2,016	$2,912	$—	$—	$46,698
Loans collectively evaluated for impairment	1,015,072	1,273,337	217,681	1,778,027	1,287,382	2,632	5,574,131
Loans acquired with deteriorated credit quality	405	3,546	499	44	—	—	4,494
Total ending loan balance	$1,031,500	$1,302,630	$220,196	$1,780,983	$1,287,382	$2,632	$5,625,323
Allowance for loan losses as a percentage of loan balance:							
	10.71 %	0.28 %	— %	2.03 %	— %	— %	3.95 %

Loans individually evaluated for impairment							
Loans collectively evaluated for impairment	1.31 %	0.76 %	2.11 %	0.51 %	0.92 %	— %	0.87 %
Loans acquired with deteriorated credit quality	— %	— %	— %	— %	— %	— %	— %
Total	1.46 %	0.75 %	2.09 %	0.51 %	0.92 %	— %	0.89 %
Recorded investment:							
Loans individually evaluated for impairment	$16,026	$25,805	$2,016	$2,913	$—	$—	$46,760
Loans collectively evaluated for impairment	1,020,675	1,278,448	218,321	1,781,908	1,291,155	2,672	5,593,179
Loans acquired with deteriorated credit quality	405	3,546	499	44	—	—	4,494
Total ending recorded investment	$1,037,106	$1,307,799	$220,836	$1,784,865	$1,291,155	$2,672	$5,644,433

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(In thousands)	December 31, 2017 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	$681	$2	$—	$1	$—	$—	$684
Collectively evaluated for impairment	14,341	9,599	4,430	9,320	11,614	—	49,304
Total ending allowance balance	$15,022	$9,601	$4,430	$9,321	$11,614	$—	$49,988
Loan balance:							
Loans individually evaluated for impairment	$18,034	$18,131	$1,322	$19,058	$—	$—	$56,545
Loans collectively evaluated for impairment	1,035,419	1,149,476	180,148	1,706,166	1,241,736	2,993	5,315,938
Total ending loan balance	$1,053,453	$1,167,607	$181,470	$1,725,224	$1,241,736	$2,993	$5,372,483
Allowance for loan losses as a percentage of loan balance:							
Loans individually evaluated for impairment	3.78 %	0.01 %	— %	0.01 %	— %	— %	1.21 %
Loans collectively evaluated for impairment	1.39 %	0.84 %	2.46 %	0.55 %	0.94 %	— %	0.93 %
Total	1.43 %	0.82 %	2.44 %	0.54 %	0.94 %	— %	0.93 %
Recorded investment:							
Loans individually evaluated for impairment	$18,039	$18,142	$1,324	$19,059	$—	$—	$56,564
Loans collectively evaluated for impairment	1,039,827	1,153,748	180,693	1,709,737	1,245,544	3,029	5,332,578
	$1,057,866	$1,171,890	$182,017	$1,728,796	$1,245,544	$3,029	$5,389,142

Total ending
recorded
investment

Note 6 – Foreclosed and Repossessed Assets

Park typically transfers a loan to other real estate owned ("OREO") at the time that Park takes deed/title to the asset. The carrying amounts of foreclosed properties held at September 30, 2018 and December 31, 2017 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, 2018	December 31, 2017
OREO:		
Commercial real estate	$ 2,359	$ 7,888
Construction real estate	2,191	4,852
Residential real estate	726	1,450
Total OREO	$ 5,276	$ 14,190
Loans in process of foreclosure:		
Residential real estate	$ 2,743	$ 2,948

In addition to real estate, Park may also repossess different types of collateral. As of September 30, 2018, Park had $7.2 million in other repossessed assets which are included in other assets on the consolidated condensed balance sheet. These assets consisted of aircraft acquired as part of a loan workout. There were no other repossessed assets as of September 30, 2017.

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Note 7 – 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, 2018 and 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except share and per common share data)	2018	2017	2018	2017
Numerator:				
Net income	$24,762	$ 22,112	$84,126	$ 61,411
Denominator:				
Weighted-average common shares outstanding	15,686,542	15,287,974	15,420,135	15,299,039
Effect of dilutive restricted stock units	146,192	63,616	140,531	95,160
Weighted-average common shares outstanding adjusted for the effect of dilutive restricted stock units	15,832,734	15,351,590	15,560,666	15,394,199
Earnings per common share:				
Basic earnings per common share	$1.58	$ 1.45	$5.46	$ 4.01
Diluted earnings per common share	$1.56	$ 1.44	$5.41	$ 3.99

Park awarded 48,053 and 45,788 performance based restricted stock units ("PBRSUs") to certain employees during the nine months ended September 30, 2018 and 2017, respectively. No PBRSUs were awarded during the three months ended either September 30, 2018 or 2017.

On July 1, 2018, Park issued 435,457 common shares to complete its acquisition of NewDominion and granted 13,637 restricted stock units ("RSUs") to NewDominion employees. These common shares are included in average common shares outstanding beginning on that date.

Park repurchased 50,000 common shares during the nine months ended September 30, 2018 to fund the PBRSUs, RSUs and common shares to be awarded to directors of Park and to directors of Park's subsidiary PNB (and its divisions). No common shares were repurchased during the three months ended September 30, 2018. Park repurchased 20,000 common shares during the three months ended September 30, 2017, and repurchased 70,000 common shares during the nine months ended September 30, 2017 to fund the PBRSUs and common shares to be awarded to directors of Park and to directors of Park's subsidiary PNB (and its divisions).

Note 8 – 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, PNB (headquartered in Newark, Ohio), 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, 2018

(In thousands)	PNB	GFSC	SEPH	All Other	Total
Net interest income	$66,195	$1,252	$119	$110	$67,676
Provision for (recovery of) loan losses	2,935	183	(178)	—	2,940
Other income (loss)	22,559	63	(99)	1,541	24,064
Other expense	51,982	810	563	5,961	59,316
Income (loss) before income taxes	$33,837	$322	$(365)	$(4,310)	$29,484
Income tax expense (benefit)	5,981	68	(76)	(1,251)	4,722
Net income (loss)	$27,856	$254	$(289)	$(3,059)	$24,762
Assets (as of September 30, 2018)	$7,707,474	$28,551	$7,475	$12,991	$7,756,491

Operating Results for the three months ended September 30, 2017

(In thousands)	PNB	GFSC	SEPH	All Other	Total
Net interest income	$59,415	$1,455	$401	$280	$61,551
Provision for (recovery of) loan losses	3,820	609	(1,146)	—	3,283
Other income	21,770	34	440	1,293	23,537
Other expense	47,390	750	1,025	2,094	51,259
Income (loss) before income taxes	$29,975	$130	$962	$(521)	$30,546
Income tax expense (benefit)	8,678	46	336	(626)	8,434
Net income	$21,297	$84	$626	$105	$22,112
Assets (as of September 30, 2017)	$7,788,248	$33,260	$25,377	$15,810	$7,862,695

Operating Results for the nine months ended September 30, 2018

(In thousands)	PNB	GFSC	SEPH	All Other	Total
Net interest income	$190,319	$3,818	$2,612	$519	$197,268
Provision for (recovery of) loan losses	4,491	773	(678)	—	4,586
Other income	64,544	135	3,559	5,971	74,209
Other expense	149,152	2,412	3,445	11,149	166,158
Income (loss) before income taxes	$101,220	$768	$3,404	$(4,659)	$100,733
Income tax expense (benefit)	17,822	162	715	(2,092)	16,607
Net income (loss)	$83,398	$606	$2,689	$(2,567)	$84,126

Operating Results for the nine months ended September 30, 2017

(In thousands)	PNB	GFSC	SEPH	All Other	Total
Net interest income	$174,717	$4,424	$884	$256	$180,281
Provision for (recovery of) loan losses	9,114	1,419	(1,793)	—	8,740
Other income	61,466	58	477	1,190	63,191
Other expense	137,876	2,343	3,097	6,407	149,723
Income (loss) before income taxes	$89,193	$720	$57	$(4,961)	$85,009
Income tax expense (benefit)	26,247	252	20	(2,921)	23,598
Net income (loss)	$62,946	$468	$37	$(2,040)	$61,411

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, 2018 and 2017. The reconciling amounts for consolidated total assets for the periods ended September 30, 2018 and 2017 consisted of the elimination of intersegment borrowings and the assets of the Parent Company which were not eliminated.

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Note 9 – Loans Held For Sale

Mortgage loans held for sale are carried at their fair value. At September 30, 2018 and December 31, 2017, respectively, Park had approximately $6.4 million and $4.1 million in mortgage loans held for sale. These amounts are included in loans on the consolidated condensed balance sheets and in the residential real estate loan segments in Note 4 - Loans, and Note 5 - Allowance for Loan Losses. The contractual balance was $6.4 million and $4.1 million at September 30, 2018 and December 31, 2017, respectively. The gain expected upon sale was $75,000 and $55,000 at September 30, 2018 and December 31, 2017, respectively. None of these loans were 90 days or more past due or on nonaccrual status as of September 30, 2018 or December 31, 2017.

Note 10 – 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, 2018 and 2017, there were no investment securities deemed to be other-than-temporarily impaired.

Investment securities at September 30, 2018, were as follows:

Debt Securities Available-for-Sale (In thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
U.S. Government sponsored entities' asset-backed securities	$1,074,605	$ 229	$ 42,569	$1,032,265
Total	$1,074,605	$ 229	$ 42,569	$1,032,265

Debt Securities Held-to-Maturity (In thousands)	Amortized Cost	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Estimated Fair Value
U.S. Government sponsored entities' asset-backed securities	$46,974	$ 41	$ 1,386	$45,629
Obligations of states and political subdivisions	303,668	1,096	$ 6,052	298,712
Total	$350,642	$ 1,137	$ 7,438	$344,341

Investment securities with unrealized/unrecognized losses at September 30, 2018, were as follows:

	Unrealized/unrecognized loss position for less than 12 months		Unrealized/unrecognized loss position for 12 months or longer		Total	
(In thousands)	Fair value	Unrealized/unrecognized losses	Fair value	Unrealized/unrecognized losses	Fair value	Unrealized/unrecognize losses
Debt Securities Available-for-Sale						
U.S. Government sponsored entities' asset-backed securities	$547,752	$ 12,583	$450,284	$ 29,986	$998,036	$ 42,569
Total	$547,752	$ 12,583	$450,284	$ 29,986	$998,036	$ 42,569
Debt Securities Held-to-Maturity						
U.S. Government sponsored entities' asset-backed securities	$32,704	$ 1,165	$6,944	$ 221	$39,648	$ 1,386
	152,074	$ 3,041	69,429	3,011	$221,503	6,052

Obligations of states and political subdivisions						
Total	$ 184,778	$ 4,206	$ 76,373	$ 3,232	$ 261,151	$ 7,438

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Investment securities at December 31, 2017, were as follows:

Debt 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	$245,000	$ —	$ 2,280	$242,720
U.S. Government sponsored entities' asset-backed securities	852,645	4,645	8,129	849,161
Total	$1,097,645	$ 4,645	$ 10,409	$1,091,881

Debt Securities Held-to-Maturity (In thousands)	Amortized Cost	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Estimated Fair Value
Obligations of states and political subdivisions	$300,412	$ 6,575	$ 713	$306,274
U.S. Government sponsored entities' asset-backed securities	56,785	758	38	57,505
Total	$357,197	$ 7,333	$ 751	$363,779

Investment securities with unrealized/unrecognized losses at December 31, 2017, were as follows:

	Unrealized/unrecognized loss position for less than 12 months		Unrealized/unrecognized loss position for 12 months or longer		Total	
(In thousands)	Fair value	Unrealized/unrecognized losses	Fair value	Unrealized/unrecognized losses	Fair value	Unrealized/unrecognized losses
Debt Securities Available-for-Sale						
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$24,931	$ 70	$217,789	$ 2,210	$242,720	$ 2,280
U.S. Government sponsored entities' asset-backed securities	236,924	2,786	318,797	5,343	555,721	8,129
Total	$261,855	$ 2,856	$536,586	$ 7,553	$798,441	$ 10,409
Debt Securities Held-to-Maturity						
Obligations of states and political subdivisions	$26,644	$ 194	$45,498	$ 519	$72,142	$ 713
U.S. Government sponsored entities' asset-backed securities	7,331	38	—	—	7,331	38
Total	$33,975	$ 232	$45,498	$ 519	$79,473	$ 751

Management does not believe any of the unrealized/unrecognized losses at September 30, 2018 or December 31, 2017 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 primarily of 15-year residential mortgage-backed securities and collateralized mortgage obligations.

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The amortized cost and estimated fair value of investments in debt securities at September 30, 2018, are shown in the following table by contractual maturity, 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. Government sponsored entities' asset-backed securities	$1,074,605	$1,032,265	2.35 %

Securities Held-to-Maturity (In thousands)	Amortized cost	Fair value	Tax equivalent yield (1)
Obligations of state and political subdivisions:			
Due five through ten years	$2,430	$2,385	2.97 %
Due over ten years	301,238	296,327	3.68 %
Total (1)	$303,668	$298,712	3.67 %
U.S. Government sponsored entities' asset-backed securities	$46,974	$45,629	2.83 %

(1) The tax equivalent yield for obligations of state and political subdivisions includes the effects of a taxable equivalent adjustment using a 21% federal corporate income tax rate.

The remaining average life of the entire investment portfolio is estimated to be 4.8 years.

There were no sales of investment securities during the three-month period ended September 30, 2018. During the nine-month period ended September 30, 2018, Park sold certain AFS debt securities with a book value of $247.0 million at a loss of $2.6 million. Additionally, during the nine-month period ended September 30, 2018, Park sold certain HTM debt securities with a book value of $7.4 million at a gain of $291,000. These HTM securities had been paid down by 96.3% of the principal outstanding at acquisition. There were no sales of investment securities during the three-month or nine-month periods ended September 30, 2017.

Investment securities having a book value of $564 million and $557 million at September 30, 2018 and December 31, 2017, respectively, were pledged to collateralize government and trust department deposits in accordance with federal and state requirements, to secure repurchase agreements sold and as collateral for Federal Home Loan Bank ("FHLB") advance borrowings.

Note 11 – Other Investment Securities

Other investment securities consist of stock investments in the FHLB, the Federal Reserve Bank ("FRB"), and equity securities. The FHLB and FRB restricted stock investments are carried at their redemption value. Equity securities with a readily determinable fair value are carried at fair value. Beginning on January 1, 2018, with the adoption of ASU 2016-01, changes in fair value are included in other income on the consolidated condensed statement of income as opposed to in accumulated other comprehensive loss on the consolidated condensed balance sheet. Equity securities without a readily determinable fair value are recorded at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions ("modified cost").

The carrying amount of other investment securities at September 30, 2018 and December 31, 2017 was as follows:

(In thousands)	September 30, 2018	December 31, 2017
FHLB stock	$ 43,388	$ 50,086
FRB stock	8,225	8,225

Equity investments carried at fair value	1,902	1,935
Equity investments carried at cost/modified cost [1]	2,589	3,500
Total other investment securities	$ 56,104	$ 63,746

[1] There have been no impairments, downward adjustments, or upward adjustments made to equity investments carried at modified cost.

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During the three and nine months ended September 30, 2018, $326,000 and $33,000, respectively, of unrealized losses were recorded within "(Loss) gain on equity securities, net" on the consolidated condensed statements of income. An additional $3.5 million gain recorded within “(Loss) gain on equity securities, net” on the consolidated condensed statement of income for the nine months ended September 30, 2018 relates to an investment security which was no longer held at September 30, 2018.

Note 12 – Goodwill and Other Intangibles

The following table shows the activity in goodwill and other intangibles for the first nine months of 2018.

(in thousands)	Goodwill	Other Intangibles	Total
December 31, 2017	$72,334	$ —	$72,334
Acquired goodwill and other intangibles	40,405	7,549	47,954
Amortization	—	289	289
September 30, 2018	$112,739	$ 7,260	$119,999

Park evaluates goodwill for impairment on April 1 of each year, with financial data as of March 31. Based on the analysis performed as of April 1, 2018, the Company determined that goodwill for Park's national bank subsidiary (PNB) was not impaired. There have been no subsequent circumstances or events triggering an additional evaluation.

Acquired Intangible Assets

The following table shows the balance of acquired intangible assets as of September 30, 2018. Park had no other intangible assets as of December 31, 2017.

(in thousands)	2018 Gross Carrying Amount	Accumulated Amortization
Other intangible assets:		
Core deposit intangibles	$6,249	$ 289
Trade name intangible	1,300	—
Total	$7,549	$ 289

Core deposit intangibles are being amortized, on an accelerated basis, over a period of ten years. The trade name intangible is an indefinite life asset and is not amortized, but rather is assessed, at least annually, for impairment. Aggregate amortization expense was $289,000 for both the three months and nine months ended September 30, 2018. There was no amortization expense during 2017.

Estimated amortization expense for each of the periods listed below follows:

(in thousands)	Total
Three months ending December 31, 2018	$289
2019	1,234
2020	1,149
2021	869
2022	629

Note 13 - 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 made 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 (“SARs”), restricted common shares

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(“Restricted Stock”), restricted stock unit awards that may be settled in common shares, cash or a combination of the two (“Restricted Stock Units”), unrestricted common shares (“Other Stock-Based Awards”) and cash-based awards. Under the 2013 Incentive Plan, 600,000 common shares were authorized to be delivered in connection with grants under the 2013 Incentive Plan. The common shares to be delivered under the 2013 Incentive Plan are to 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. As of September 30, 2018, there were 92,404 common shares subject to performance-based Restricted Stock Units (“PBRSUs”) issued under the 2013 Incentive Plan, which represented the only awards outstanding under the 2013 Incentive Plan.

The Park National Corporation 2017 Long-Term Incentive Plan for Employees (the "2017 Employees LTIP") was adopted by the Board of Directors of Park on January 23, 2017 and was approved by Park's shareholders at the Annual Meeting of Shareholders on April 24, 2017. The 2017 Employees LTIP makes equity-based awards and cash-based awards available for grant to participants in the form of incentive stock options, nonqualified stock options, SARs, Restricted Stock, Restricted Stock Units, Other Stock-Based Awards and cash-based awards. Under the 2017 Employees LTIP, 750,000 common shares are authorized to be delivered in connection with grants under the 2017 Employees LTIP. The common shares to be delivered under the 2017 Employees LTIP are to 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. At September 30, 2018, 689,773 common shares were available for future grants under the 2017 Employees LTIP.

The Park National Corporation 2017 Long-Term Incentive Plan for Non-Employee Directors (the "2017 Non-Employee Directors LTIP") was adopted by the Board of Directors of Park on January 23, 2017 and was approved by Park's shareholders at the Annual Meeting of Shareholders on April 24, 2017. The 2017 Non-Employee Directors LTIP makes equity-based awards and cash-based awards available for grant to participants in the form of nonqualified stock options, SARs, Restricted Stock, Restricted Stock Units, Other Stock-Based Awards, and cash-based awards. Under the 2017 Non-Employee Directors LTIP, 150,000 common shares are authorized to be delivered in connection with grants under the 2017 Non-Employee Directors LTIP. The common shares to be delivered under the 2017 Non-Employee Directors LTIP are to 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. At September 30, 2018, 138,850 common shares were available for future grants under the 2017 Non-Employee Director LTIP.

The 2017 Employees LTIP and the 2017 Non-Employee Directors LTIP have replaced the provisions of the 2013 Incentive Plan with respect to the grant of future awards. As a result of the approval of the 2017 Employees LTIP and the 2017 Non-Employee Directors LTIP, Park has not granted and will not grant any additional awards under the 2013 Incentive Plan after April 24, 2017. Awards made under the 2013 Incentive Plan prior to April 24, 2017 will remain in effect in accordance with their respective terms.

During the nine months ended September 30, 2018, the Compensation Committee of the Board of Directors of Park granted awards of PBRSUs, under the 2017 Employees LTIP, covering an aggregate of 48,053 common shares to certain employees of Park and its subsidiaries. Additionally, on July 1, 2018, Park granted 13,637 RSUs to NewDominion employees. During the nine months ended September 30, 2017, the Compensation Committee of the Board of Directors of Park granted awards of PBRSUs, under the 2013 Incentive Plan, covering an aggregate of 45,788 common shares to certain employees of Park and its subsidiaries. There were no awards granted during the three months ended September 30, 2017. The number of PBRSUs earned or settled will depend on the level of achievement with respect to certain performance criteria and are also subject to subsequent service-based vesting. The number of RSUs earned or settled are subject to subsequent service-based vesting.

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A summary of changes in the common shares subject to nonvested PBRSUs and RSUs for the nine months ended September 30, 2018 follows:

	Common shares subject to PBRSUs and RSUs
Nonvested at January 1, 2018	116,716
Granted	61,690
Vested	(18,800)
Forfeited	(4,655)
Adjustment for performance conditions of PBRSUs (1)	(2,320)
Nonvested at September 30, 2018	152,631

(1) The number of PBRSUs earned depends on the level of achievement with respect to certain performance criteria. Adjustment herein represents the difference between the maximum number of common shares which could be earned and the actual number earned for those PBRSUs as to which the performance period was completed.

On March 31, 2018, an aggregate of 18,800 of the PBRSUs granted in 2014 and 2015 vested in full due to the level of achievement with respect to certain performance criteria and the satisfaction of the service-based vesting requirement. A total of 5,879 common shares were withheld to satisfy employee income tax withholding obligations. This resulted in a net amount of 12,921 common shares being issued to employees of Park. On March 31, 2017, 9,674 of the PBRSUs granted in 2014 vested in full due to the level of achievement with respect to certain performance criteria and the satisfaction of the service-based vesting requirement. A total of 3,293 common shares were withheld to satisfy employee income tax withholding obligations. This resulted in a net amount of 6,381 common shares being issued to employees of Park.

Share-based compensation expense of $1.0 million and $0.7 million was recognized for the three-month periods ended September 30, 2018 and 2017, respectively, and of $3.1 million and $2.1 million was recognized for the nine-month periods ended September 30, 2018 and 2017, respectively.

The following table details expected additional share-based compensation expense related to PBRSUs and RSUs outstanding as of September 30, 2018:

(In thousands)	
Three months ending December 31, 2018	$1,047
2019	3,653
2020	2,440
2021	1,030
2022	226
Total	$8,396

Note 14 – Benefit Plans

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

There were no Pension Plan contributions for the three-month and nine-month periods ended September 30, 2018 and 2017.

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Affected Line Item in the Consolidated Condensed Statements of Income
(In thousands)	2018	2017	2018	2017	
Service cost	$1,637	$1,317	$4,911	$3,951	Employee benefits
Interest cost	1,309	1,271	3,927	3,813	Other components of net periodic pension benefit income
Expected return on plan assets	(3,354)	(2,863)	(10,062)	(8,589)	Other components of net periodic pension benefit income
Amortization of prior service cost	—	—	—	—	Other components of net periodic pension benefit income
Recognized net actuarial loss	340	144	1,020	432	Other components of net periodic pension benefit income
Net periodic pension benefit income	$(68)	$(131)	$(204)	$(393)	

Park has entered into Supplemental Executive Retirement Plan Agreements (the "SERP Agreements") with certain key officers of the Corporation and its subsidiaries which provide defined pension benefits in excess of limits imposed by federal tax law. The expense for the Corporation related to the SERP Agreements for the three months and nine months ended September 30, 2018 and 2017 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,		Affected Line Item in the Consolidated Condensed Statement of Income
(In thousands)	2018	2017	2018	2017	
Service cost	$157	$185	$635	$555	Employee benefits
Interest cost	188	161	349	483	Miscellaneous expense
Total SERP expense	$345	$346	$984	$1,038	

Previously, the net periodic benefit income/expense related to Park's Pension Plan and the expense related to the SERP Agreements had been recorded within the "Employee benefits" line item. During the first quarter of 2018, Park adopted ASU 2017-07 - Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement. This ASU requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component. This ASU is required to be applied retrospectively to all periods presented. For all periods presented, this resulted in an increase in other income and an offsetting increase in other expense with no change to net income. As a practical expedient, Park used the amounts disclosed in "Note 12 - Pension Plan" of the Notes to Unaudited Consolidated Condensed Financial Statements, included under Item 1 of Part I of Park's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017 as the estimation basis for applying the retrospective presentation requirements.

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The following table summarizes the impact of retrospective application of this ASU to the consolidated condensed statement of income for the three and nine months ended September 30, 2017.

(in thousands)	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Other components of net periodic pension benefit income		
As previously reported	$ —	$ —
As reported under new guidance	1,448	4,344
Total other income		
As previously reported	$ 22,089	$ 58,847
As reported under new guidance	23,537	63,191
Employee benefits expense		
As previously reported	$ 4,656	$ 14,756
As reported under new guidance	5,943	18,617
Miscellaneous expense		
As previously reported	$ 2,764	$ 5,847
As reported under new guidance	2,925	6,330
Total other expense		
As previously reported	$ 49,811	$ 145,379
As reported under new guidance	51,259	149,723

Note 15 – Loan Servicing

Park serviced sold mortgage loans of $1.38 billion at September 30, 2018, $1.37 billion at December 31, 2017 and $1.36 billion at September 30, 2017. At September 30, 2018, $2.6 million of the sold mortgage loans were sold with recourse, compared to $3.0 million at December 31, 2017 and $3.2 million at September 30, 2017. Management closely monitors the delinquency rates on the mortgage loans sold with recourse. At September 30, 2018 and December 31, 2017, management had established reserves of $49,000 and $270,000, respectively, to account for expected losses on loan repurchases.

When Park sells mortgage loans with servicing rights retained, these 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 with respect to 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. The amortization of MSRs is included within other service income in the consolidated condensed statements of income.

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Activity for MSRs and the related valuation allowance follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2018	2017	2018	2017
Mortgage servicing rights:				
Carrying amount, net, beginning of period	$10,077	$9,476	$9,688	$9,266
Additions	432	559	1,208	1,434
Amortization	(387)	(448)	(1,156)	(1,213)
Changes in valuation allowance	(26)	(108)	356	(8)
Carrying amount, net, end of period	$10,096	$9,479	$10,096	$9,479
Valuation allowance:				
Beginning of period	$248	$635	$630	$735
Changes in valuation allowance	26	108	(356)	8
End of period	$274	$743	$274	$743

Servicing fees included in other service income were $0.9 million and $0.8 million for the three months ended September 30, 2018 and 2017, respectively, and were $2.7 million and $2.6 million for the nine months ended September 30, 2018 and 2017, respectively.

Note 16 – 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 (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction 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 under 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, 2018 using:

(In thousands)	Level 1	Level 2	Level 3	Balance at September 30, 2018
Assets				
Investment securities:				
U.S. Government sponsored entities' asset-backed securities	$ —	$1,032,265	$—	$1,032,265
Equity securities	1,478	—	424	1,902
Mortgage loans held for sale	—	6,441	—	6,441
Mortgage IRLCs	—	128	—	128
Liabilities				
Fair value swap	$ —	$—	$226	$226

Fair Value Measurements at December 31, 2017 using:

(In thousands)	Level 1	Level 2	Level 3	Balance at December 31, 2017
Assets				
Investment securities:				
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$ —	$242,720	$—	$242,720
U.S. Government sponsored entities' asset-backed securities	—	849,161	—	849,161
Equity securities	1,518	—	417	1,935
Mortgage loans held for sale	—	4,148	—	4,148
Mortgage IRLCs	—	94	—	94
Liabilities				
Fair value swap	$ —	$—	$226	$226

There were no transfers between Level 1 and Level 2 during either of the three-month periods ended September 30, 2018 or 2017. 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 the 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 (Level 1). If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows (Level 3).

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.

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

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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 presents a reconciliation of the beginning and ending balances of the Level 3 inputs for the three and six months ended September 30, 2018 and 2017, for financial instruments measured on a recurring basis and classified as Level 3:

Level 3 Fair Value Measurements
Three months ended September 30, 2018 and 2017

(In thousands)	Equity Securities	Fair value swap
Balance at July 1, 2018	$ 420	$(226)
Total gains/(losses)		
Included in other income	4	—
Balance at September 30, 2018	$ 424	$(226)
Balance at July 1, 2017	$ 458	$(226)
Total gains/(losses)		
Included in other comprehensive income	37	—
Balance at September 30, 2017	$ 495	$(226)

Level 3 Fair Value Measurements
Nine months ended September 30, 2018 and 2017

(In thousands)	Equity Securities	Fair value swap
Balance at January 1, 2018	$ 417	$(226)
Total gains/(losses)		
Included in other income	7	—
Balance at September 30, 2018	$ 424	$(226)
Balance at January 1, 2017	$ 790	$(226)
Total gains/(losses)		
Transfers out of Level 3 [1]	(346)	—
Included in other comprehensive income	51	—
Balance at September 30, 2017	$ 495	$(226)

[1] Transfered from Level 3 to Level 1 as the result of a quoted market price becoming available.

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. Collateral dependent 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 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. 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 received by the Company: real estate appraisals, income approach appraisals, and lot development loan appraisals. 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.

Other repossessed assets: Other repossessed assets are initially recorded at fair value less costs to sell when acquired. The carrying value of other repossessed assets 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. As of September 30, 2018, other repossessed assets consisted of aircraft acquired as part of a loan workout. Fair value is based on Aircraft Bluebook and VREF Aircraft Value Reference values based on the model of aircraft and adjustments for flight hours, features and other variables. Such adjustments result in a Level 3 classification of the inputs for determining fair value.

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. As of September 30, 2018, there were no PCI loans considered impaired. 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, 2018 using:

(In thousands)	Level 1	Level 2	Level 3	Balance at September 30, 2018
Impaired loans recorded at fair value:				
Commercial real estate	$ —	$—	$4,020	$ 4,020
Construction real estate	—	—	1,635	1,635
Residential real estate	—	—	592	592
Total impaired loans recorded at fair value	$ —	$—	$6,247	$ 6,247
Mortgage servicing rights	$ —	$1,457	$—	$ 1,457
OREO:				
Commercial real estate	—	—	2,295	2,295
Construction real estate	—	—	889	889
Residential real estate	—	—	679	679
Total OREO recorded at fair value	$ —	$—	$3,863	$ 3,863
Other repossessed assets	$ —	$—	$7,170	$ 7,170

Fair Value Measurements at December 31, 2017 using:

(In thousands)	Level 1	Level 2	Level 3	Balance at December 31, 2017
Impaired loans recorded at fair value:				
Commercial real estate	$ —	$—	$2,735	$ 2,735
Construction real estate	—	—	127	127
Residential real estate	—	—	712	712
Total impaired loans recorded at fair value	$ —	$—	$3,574	$ 3,574
Mortgage servicing rights	$ —	$7,316	$—	$ 7,316
OREO:				
Commercial real estate	—	—	2,295	2,295
Construction real estate	—	—	3,204	3,204
Residential real estate	—	—	1,021	1,021
Total OREO recorded at fair value	$ —	$—	$6,520	$ 6,520

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.

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	September 30, 2018			
(In thousands)	Recorded Investment	Prior Charge-Offs	Specific Valuation Allowance	Carrying Balance
Impaired loans recorded at fair value	$6,377	$ 3,708	$ 130	$6,247
Remaining impaired loans	40,383	7,361	1,716	38,667
Total impaired loans	$46,760	$ 11,069	$ 1,846	$44,914

	December 31, 2017			
(In thousands)	Recorded Investment	Prior Charge-Offs	Specific Valuation Allowance	Carrying Balance
Impaired loans recorded at fair value	$3,577	$ 2,780	$ 3	$3,574
Remaining impaired loans	52,987	7,260	681	52,306
Total impaired loans	$56,564	$ 10,040	$ 684	$55,880

The expense from credit adjustments related to impaired loans carried at fair value during the three months ended September 30, 2018 and 2017 was $0.1 million and $0.7 million, respectively. The expense from credit adjustments related to impaired loans carried at fair value during the nine months ended September 30, 2018 and 2017 was $0.3 million and $1.2 million, respectively.

MSRs totaled $10.1 million at September 30, 2018. Of this $10.1 million MSR carrying balance, $1.5 million was recorded at fair value and included a valuation allowance of $0.3 million. The remaining $8.6 million was recorded at cost, as the fair value of the MSRs exceeded cost at September 30, 2018. At December 31, 2017, MSRs totaled $9.7 million. Of this $9.7 million MSR carrying balance, $7.3 million was recorded at fair value and included a valuation allowance of $0.6 million. The remaining $2.4 million was recorded at cost, as the fair value exceeded cost at December 31, 2017. The expense related to MSRs carried at fair value during the three months ended September 30, 2018 and 2017 was $26,000 and $108,000, respectively. The income (expense) related to MSRs carried at fair value during the nine months ended September 30, 2018 and 2017 was $356,000 and $(8,000), respectively.

Total OREO held by Park at September 30, 2018 and December 31, 2017 was $5.3 million and $14.2 million, respectively. Approximately 73% and 46% of OREO held by Park at September 30, 2018 and December 31, 2017, respectively, was carried at fair value due to fair value adjustments made subsequent to the initial OREO measurement. At September 30, 2018 and December 31, 2017, OREO held at fair value, less estimated selling costs, amounted to $3.9 million and $6.5 million, respectively. The net expense related to OREO fair value adjustments was $77,000 and $22,000 for the three-month periods ended September 30, 2018 and 2017, respectively. The net expense related to OREO fair value adjustments was $398,000 and $367,000 for the nine-month periods ended September 30, 2018 and 2017, respectively.

Other repossessed assets totaled $7.2 million at September 30, 2018, all of which was recorded at fair value. There were no other repossessed assets as of December 31, 2017. The net expense related to other repossessed asset fair value adjustments was $269,000 for each of the three-month and nine-month periods ended September 30, 2018. There was no expense related to fair value adjustments on other repossessed assets for either the three-month or nine-month periods ended September 30, 2017.

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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 nonrecurring basis at September 30, 2018 and December 31, 2017:

September 30, 2018

(In thousands)	Fair Value	Valuation Technique	Unobservable Input(s)	Range (Weighted Average)
Impaired loans:				
Commercial real estate	$4,020	Sales comparison approach	Adj to comparables	0.0% - 55.0% (25.4%)
		Income approach	Capitalization rate	10.6% - 11.8% (11.5%)
		Cost approach	Accumulated depreciation	3.7% - 90.1% (12.9%)
Construction real estate	$1,635	Sales comparison approach	Adj to comparables	5.0% - 90.0% (26.1%)
Residential real estate	$592	Sales comparison approach	Adj to comparables	1.0% - 40.0% (18.5%)
		Income approach	Capitalization rate	10.5% (10.5%)
Other real estate owned:				
Commercial real estate	$2,295	Sales comparison approach	Adj to comparables	0.9% - 68.4% (34.7%)
		Income approach	Capitalization rate	13.0% (13.0%)
Construction real estate	$889	Sales comparison approach	Adj to comparables	0.0% - 45.0% (21.9%)
Residential real estate	$679	Sales comparison approach	Adj to comparables	0.9% - 54.6% (40.7%)

Balance at December 31, 2017

(In thousands)	Fair Value	Valuation Technique	Unobservable Input(s)	Range (Weighted Average)
Impaired loans:				
Commercial real estate	$2,735	Sales comparison approach	Adj to comparables	0.0% - 90.0% (22.7%)
		Income approach	Capitalization rate	9.0% - 11.0% (9.9%)
		Cost approach	Accumulated depreciation	90.1% (90.1%)
Construction real estate	$127	Sales comparison approach	Adj to comparables	0.0% - 4.8% (2.4%)
Residential real estate	$712	Sales comparison approach	Adj to comparables	0.3% - 33.0% (12.5%)
		Income approach	Capitalization rate	10.5% (10.5%)
Other real estate owned:				
Commercial real estate	$2,295	Sales comparison approach	Adj to comparables	0.9% - 68.4% (34.7%)
		Income approach	Capitalization rate	13.0% (13.0%)
Construction real estate	$3,204	Sales comparison approach	Adj to comparables	0.0% - 90.0% (24.5%)
		Bulk sale approach	Discount rate	15.0% (15.0%)
Residential real estate	$1,021	Sales comparison approach	Adj to comparables	1.2% - 79.7% (31.8%)

Assets Measured at Net Asset Value:

The adoption of ASU 2016-01 on January 1, 2018 required Park to evaluate the accounting for equity investments, including those previously held at cost. Under the new guidance, Park determined that its portfolio of equity investments in limited partnerships which provide mezzanine funding ("Partnership Investments") should be valued using the net asset value ("NAV") practical expedient in accordance with ASC 820. The adoption of this guidance on January 1, 2018, resulted in a $1.2 million increase to Partnership Investments, which are included within other assets on the consolidated condensed balance sheet, and a $922,000 increase to beginning retained earnings.

As of September 30, 2018 and December 31, 2017, Park had Partnerships Investments with a NAV of $10.7 million and $8.8 million, respectively. As of September 30, 2018 and December 31, 2017, Park had $6.1 million and $7.2 million in unfunded commitments related to these Partnership Investments. For the nine months ended September 30, 2018, Park had recognized $1.2 million in income related to these Partnership Investments.

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The fair value of certain financial instruments at September 30, 2018 and December 31, 2017, was as follows:

	September 30, 2018				
		Fair Value Measurements			
(In thousands)	Carrying value	Level 1	Level 2	Level 3	Total fair value
Financial assets:					
Cash and money market instruments	$144,604	$144,604	$—	$—	$144,604
Investment securities (1)	1,382,907	—	1,376,606	—	1,376,606
Other investment securities (2)	1,902	1,478	—	424	1,902
Loans held for sale	6,441	—	6,441	—	6,441
Mortgage IRLCs	128	—	128	—	128
Impaired loans carried at fair value	6,247	—	—	6,247	6,247
Other loans, net (3)	5,562,261	—	—	5,493,865	5,493,865
Loans receivable, net	$5,575,077	$—	$6,569	$5,500,112	$5,506,681
Financial liabilities:					
Time deposits	1,090,117	—	1,089,966	—	1,089,966
Other	5,186	5,186	—	—	5,186
Deposits (excluding demand deposits)	$1,095,303	$5,186	$1,089,966	$—	$1,095,152
Short-term borrowings	$179,818	$—	$179,818	$—	$179,818
Long-term debt	400,000	—	397,640	—	397,640
Subordinated notes	15,000	—	12,987	—	12,987
Derivative financial instruments:					
Fair value swap	$226	$—	$—	$226	$226

(1) Includes debt securities AFS and debt securities HTM.

(2) Excludes FHLB stock and FRB stock which are carried at their respective redemption values. Additionally, excludes investment securities accounted for at modified cost, as these investments do not have a readily determinable fair value.

(3) Fair value calculated using an exit price notion consistent with Topic 820, Fair Value Measurement.

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	December 31, 2017				
		Fair Value Measurements			
(In thousands)	Carrying value	Level 1	Level 2	Level 3	Total fair value
Financial assets:					
Cash and money market instruments	$169,112	$169,112	$—	$—	$169,112
Investment securities (1)	1,449,078	—	1,455,660	—	1,455,660
Other investment securities (2)	1,935	1,518	—	417	1,935
Loans held for sale	4,148	—	4,148	—	4,148
Mortgage IRLCs	94	—	94	—	94
Impaired loans carried at fair value	3,574	—	—	3,574	3,574
Other loans, net	5,314,679	—	—	5,247,021	5,247,021
Loans receivable, net	$5,322,495	$—	$4,242	$5,250,595	$5,254,837
Financial liabilities:					
Time deposits	1,033,476	—	1,035,093	—	1,035,093
Other	1,269	1,269	—	—	1,269
Total deposits	$1,034,745	$1,269	$1,035,093	$—	$1,036,362
Short-term borrowings	$391,289	$—	$391,289	$—	$391,289
Long-term debt	500,000	—	504,503	—	504,503
Subordinated notes	15,000	—	13,370	—	13,370
Derivative financial instruments:					
Fair value swap	$226	$—	$—	$226	$226

(1) Includes debt securities AFS and debt securities HTM.

(2) Excludes FHLB stock and FRB stock which are carried at their respective redemption values. Additionally, excludes investment securities carried at their cost basis as these investments do not have a readily determinable fair value.

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Note 17 – Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) components, net of income tax, are shown in the following table for the three-month and nine-month periods ended September 30, 2018 and 2017:

(in thousands)	Changes in pension plan assets and benefit obligations	Change in unrealized losses on debt securities	Total
Beginning balance at July 1, 2018	$ (26,701)	$ (28,308)	$ (55,009)
Other comprehensive loss before reclassifications	—	(5,141)	(5,141)
Amounts reclassified from accumulated other comprehensive loss	—	—	—
Net current period other comprehensive loss	—	(5,141)	(5,141)
Ending balance at September 30, 2018	$ (26,701)	$ (33,449)	$ (60,150)
Beginning balance at July 1, 2017	$ (14,740)	$ 1,028	$ (13,712)
Other comprehensive income before reclassifications	—	707	707
Amounts reclassified from accumulated other comprehensive loss	—	—	—
Net current period other comprehensive income	—	707	707
Ending balance at September 30, 2017	$ (14,740)	$ 1,735	$ (13,005)

(in thousands)	Changes in pension plan assets and benefit obligations	Change in unrealized losses on debt securities	Total
Beginning balance at January 1, 2018	$ (23,526)	$ (2,928)	$ (26,454)
Other comprehensive loss before reclassifications	—	(30,919)	(30,919)
Reclassification of disproportionate income tax effects	(3,175)	(631)	(3,806)
Cumulative effect of change in accounting principle for marketable equity securities, net of tax	—	(995)	(995)
Amounts reclassified from accumulated other comprehensive loss	—	2,024	2,024
Activity for the period	(3,175)	(30,521)	(33,696)
Ending balance at September 30, 2018	$ (26,701)	$ (33,449)	$ (60,150)
Beginning balance at January 1, 2017	$ (14,740)	$ (3,005)	$ (17,745)
Other comprehensive income before reclassifications	—	4,740	4,740
Amounts reclassified from accumulated other comprehensive loss	—	—	—
Net current period other comprehensive income	—	4,740	4,740
Ending balance at September 30, 2017	$ (14,740)	$ 1,735	$ (13,005)

During the nine-month period ended September 30, 2018, there was $2.6 million ($2.0 million net of tax) reclassified out of accumulated other comprehensive loss due to losses on the sale of AFS debt securities. These losses were recorded within net loss on sale of investment securities on the consolidated condensed statements of income. During the three-month periods ended September 30, 2018 and September 30, 2017 and the nine-month period ended September 30, 2017, there were no reclassifications out of accumulated other comprehensive loss.

Note 18 – Investment in Qualified Affordable Housing

Park makes certain equity investments in various limited partnerships that sponsor affordable housing projects. The purposes of these investments are to achieve a satisfactory return on capital, help create affordable housing opportunities, and assist the Company to achieve its goals associated with the Community Reinvestment Act.

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The table below details the balances of Park's affordable housing tax credit investments and related unfunded commitments as of September 30, 2018 and December 31, 2017.

(in thousands)	September 30, 2018	December 31, 2017
Affordable housing tax credit investments	$ 52,116	$ 49,669
Unfunded commitments	22,282	14,282

Commitments are funded when capital calls are made by the general partner. Park expects that the current commitments will be funded between 2018 and 2029.
During each of the three months ended September 30, 2018 and 2017, Park recognized amortization expense of $1.9 million and during each of the nine months ended September 30, 2018 and 2017, Park recognized amortization expense of $5.6 million, which was included within the provision for income taxes. Additionally, during the three months ended September 30, 2018 and 2017, Park recognized tax credits and other benefits from its affordable housing tax credit investments of $2.0 million and $2.3 million, respectively, and during each of the nine months ended September 30, 2018 and 2017, Park recognized tax credits and other benefits from its affordable housing tax credit investments of $6.9 million which was included within the provision for income taxes.

Note 19 – Repurchase Agreement Borrowings

Securities sold under agreements to repurchase ("repurchase agreements") with customers represent funds deposited by customers, generally on an overnight basis, that are collateralized by investment securities owned by Park. Repurchase agreements with customers are included in short-term borrowings on the consolidated condensed balance sheets.

All repurchase agreements are subject to terms and conditions of repurchase/security agreements between Park and the client and are accounted for as secured borrowings. Park's repurchase agreements consisted of customer accounts and securities which are pledged on an individual security basis.

At September 30, 2018 and December 31, 2017, Park's repurchase agreement borrowings totaled $154 million and $183 million, respectively. These borrowings were collateralized with U.S. government and agency securities with a carrying value of $208 million and $213 million at September 30, 2018 and December 31, 2017, respectively. Declines in the value of the collateral would require Park to pledge additional securities. As of September 30, 2018 and December 31, 2017, Park had $926 million and $975 million, respectively, of available unpledged securities.

The table below shows the remaining contractual maturity of repurchase agreements by collateral pledged at September 30, 2018 and December 31, 2017:

(in thousands)	September 30, 2018 Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	30 - 90 days	Greater than 90 days	Total
U.S. government and agency securities	$153,818	$ —	$ —	$ —	$153,818

(in thousands)	December 31, 2017 Remaining Contractual Maturity of the Agreements				
	Overnight and	Up to 30	30 - 90	Greater than 90	Total

	Continuous	days	days	days	
U.S. government and agency securities	$182,185	$ —	$ —	$1,104	$183,289

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Note 20 - Revenue from Contracts with Customers

The Company adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning on and after January 1, 2018 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

All of Park's revenue from contracts with customers within the scope of ASC 606 is recognized within "Other income" in the Consolidated Condensed Statements of Income. The following table presents the Corporation's sources of other income by revenue stream and operating segment for the three-month and nine-month periods ended September 30, 2018 and September 30, 2017.

	Three Months Ended September 30, 2018				
Revenue by Operating Segment (in thousands)	PNB	GFSC	SEPH	All Other	Total
Income from fiduciary activities					
Personal trust and agency accounts	$1,994	$ —	$—	$—	$1,994
Employee benefit and retirement-related accounts	1,703	—	—	—	1,703
Investment management and investment advisory agency accounts	2,353	—	—	—	2,353
Other	368	—	—	—	368
Service charges on deposit accounts					
Non-sufficient funds (NSF) fees	1,926	—	—	—	1,926
Demand deposit account (DDA) charges	764	—	—	—	764
Other	171	—	—	—	171
Other service income (1)					
Credit card	592	6	—	—	598
HELOC	128	—	—	—	128
Installment	60	—	6	—	66
Real estate	2,145	—	—	—	2,145
Commercial	291	—	18	—	309
Checkcard fee income	4,352	—	—	—	4,352
Bank owned life insurance income (2)	960	—	—	1,625	2,585
ATM fees	500	—	—	—	500
OREO valuation adjustments (2)	(78)	—	1	—	(77)
Gain (loss) on sale of OREO, net	36	—	(117)	—	(81)
Net loss on sale of investment securities (2)	—	—	—	—	—
(Loss) gain on equity securities, net (2)	(44)	—	—	(282)	(326)
Other components of net periodic pension benefit income (2)	1,653	18	34	—	1,705
Miscellaneous (3)	2,685	39	(41)	198	2,881
Total other income	$22,559	$ 63	$(99)	$1,541	$24,064

(1) Of the $3.2 million of revenue included within "Other service income", approximately $1.2 million is within the scope of ASC 606, with the remaining $2 million consisting primarily of residential real estate loan fees which are out of scope.

(2) Not within the scope of ASC 606.

(3) "Miscellaneous" income includes brokerage income, safe deposit box rentals, and miscellaneous bank fees totaling $2.9 million, all of which are within the scope of ASC 606.

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	Three Months Ended September 30, 2017 (4)				
Revenue by Operating Segment (in thousands)	PNB	GFSC	SEPH	All Other	Total
Income from fiduciary activities					
Personal trust and agency accounts	$1,995	$ —	$—	$—	$1,995
Employee benefit and retirement-related accounts	1,532	—	—	—	1,532
Investment management and investment advisory agency accounts	2,077	—	—	—	2,077
Other	328	—	—	—	328
Service charges on deposit accounts					
Non-sufficient funds (NSF) fees	2,100	—	—	—	2,100
Demand deposit account (DDA) charges	941	—	—	—	941
Other	175	—	—	—	175
Other service income (1)					
Credit card	537	—	—	—	537
HELOC	123	—	—	—	123
Installment	53	1	—	—	54
Real estate	2,144	—	31	—	2,175
Commercial	297	—	171	—	468
Checkcard fee income	3,974	—	—	—	3,974
Bank owned life insurance income (2)	1,478	—	—	95	1,573
ATM fees	605	—	—	—	605
OREO valuation adjustments (2)	(22)	—	—	—	(22)
Gain on sale of OREO, net	44	—	7	—	51
Other components of net periodic pension benefit income (2)	1,403	16	29	—	1,448
Miscellaneous (3)	1,986	17	202	1,198	3,403
Total other income	$21,770	$ 34	$440	$1,293	$23,537

(1) Of the $3.4 million of revenue included within "Other service income", approximately $1.1 million is within the scope of ASC 606, with the remaining $2.3 million consisting primarily of residential real estate loan fees which are out of scope.
(2) Not within the scope of ASC 606.
(3) "Miscellaneous" income includes brokerage income, safe deposit box rentals, and miscellaneous bank fees totaling $3.4 million, all of which are within the scope of ASC 606.
(4) The Corporation elected the modified retrospective approach of adoption; therefore, prior period balances are presented under legacy GAAP and may not be comparable to current year presentation.

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Revenue by Operating Segment (in thousands)	Nine Months Ended September 30, 2018 PNB	GFSC	SEPH	All Other	Total
Income from fiduciary activities					
Personal trust and agency accounts	$6,383	$—	$—	$—	$6,383
Employee benefit and retirement-related accounts	5,003	—	—	—	5,003
Investment management and investment advisory agency accounts	6,936	—	—	—	6,936
Other	1,157	—	—	—	1,157
Service charges on deposit accounts					
Non-sufficient funds (NSF) fees	5,608	—	—	—	5,608
Demand deposit account (DDA) charges	2,503	—	—	—	2,503
Other	498	—	—	—	498
Other service income (1)					
Credit card	1,652	20	—	—	1,672
HELOC	345	—	—	—	345
Installment	197	—	6	—	203
Real estate	6,748	—	—	—	6,748
Commercial	847	—	1,075	—	1,922
Checkcard fee income	12,736	—	—	—	12,736
Bank owned life insurance income (2)	2,822	—	—	1,803	4,625
ATM fees	1,534	—	—	—	1,534
OREO valuation adjustments (2)	(179)	—	(219)	—	(398)
Gain on sale of OREO, net	1,442	—	2,651	—	4,093
Net loss on sale of investment securities (2)	(2,271)	—	—	—	(2,271)
(Loss) gain on equity securities, net (2)	(11)	—	—	3,478	3,467
Other components of net periodic pension benefit income (2)	4,957	56	102	—	5,115
Miscellaneous (3)	5,637	59	(56)	690	6,330
Total other income	$64,544	$135	$3,559	$5,971	$74,209

(1) Of the $10.9 million of revenue included within "Other service income", approximately $4.4 million is within the scope of ASC 606, with the remaining $6.5 million consisting primarily of residential real estate loan fees which are out of scope.

(2) Not within the scope of ASC 606.

(3) "Miscellaneous" income includes brokerage income, safe deposit box rentals, and miscellaneous bank fees totaling $6.3 million, all of which are within the scope of ASC 606.

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Revenue by Operating Segment (in thousands)	Nine Months Ended September 30, 2017 [4] PNB	GFSC	SEPH	All Other	Total
Income from fiduciary activities					
Personal trust and agency accounts	$5,793	$—	$—	$—	$5,793
Employee benefit and retirement-related accounts	4,499	—	—	—	4,499
Investment management and investment advisory agency accounts	6,188	—	—	—	6,188
Other	991	—	—	—	991
Service charges on deposit accounts					
Non-sufficient funds (NSF) fees	6,100	—	—	—	6,100
Demand deposit account (DDA) charges	2,900	—	—	—	2,900
Other	511	—	—	—	511
Other service income [1]					
Credit card	1,454	(9)	—	—	1,445
HELOC	345	—	3	—	348
Installment	330	1	—	—	331
Real estate	6,368	—	31	—	6,399
Commercial	891	—	194	—	1,085
Checkcard fee income	11,775	—	—	—	11,775
Bank owned life insurance income [2]	3,499	—	—	291	3,790
ATM fees	1,708	—	—	—	1,708
OREO valuation adjustments [2]	(367)	—	—	—	(367)
Gain on sale of OREO, net	192	—	12	—	204
Other components of net periodic pension benefit income [2]	4,209	48	87	—	4,344
Miscellaneous [3]	4,080	18	150	899	5,147
Total other income	$61,466	$58	$477	$1,190	$63,191

[1] Of the $9.6 million of revenue included within "Other service income", approximately $3.4 million is within the scope of ASC 606, with the remaining $6.2 million consisting primarily of residential real estate loan fees which are out of scope.
[2] Not within the scope of ASC 606.
[3] "Miscellaneous" income includes brokerage income, safe deposit box rentals, and miscellaneous bank fees totaling $5.1 million, all of which are within the scope of ASC 606.
[4] The Corporation elected the modified retrospective approach of adoption; therefore, prior period balances are presented under legacy GAAP and may not be comparable to current year presentation.

A description of Park's revenue streams accounted for under ASC 606 follows:

Income from fiduciary activities (Gross): Park earns fiduciary fee income and investment brokerage fees from its contracts with trust customers for various fiduciary and investment-related services. These fees are earned over time as the Company provides the contracted monthly and quarterly services and are generally assessed based on the market value of the trust assets.

Service charges on deposit accounts and ATM fees: The Corporation earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are generally recognized at the end of the month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Other service income: Other service income includes income from 1) the sale and servicing of loans sold to the secondary market, 2) incentive income from third-party credit card issuers, and 3) loan customers for various loan-related activities and services. These fees are generally recognized at a point in time following the completion of a loan sale or related service activity.

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Checkcard fee income: Park earns interchange fees from debit cardholder transactions conducted primarily through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, net of card network fees, concurrently with the transaction processing services provided to the cardholder.

Gain on sale of OREO, net: The Corporation records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of delivery of an executed deed. When Park finances the sale of OREO to the buyer, the Corporation assesses whether the buyer is committed to perform the buyer's obligation under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Corporation adjusts the transaction price and related gain (loss) on sale if a significant financi