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**PARK**  
NATIONAL  
CORPORATION

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**2015** ANNUAL  
REPORT

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# PARK NATIONAL CORPORATION

CENTURY NATIONAL BANK  
Division of The Park National Bank

FAIRFIELD NATIONAL BANK  
Division of The Park National Bank

FarmersBank  
Farmers and Savings Bank  
Division of The Park National Bank

FIRST-KNOX NATIONAL BANK  
Division of The Park National Bank  
...Someone you can trust™

GUARDIAN FINANCE COMPANY

PARK NATIONAL BANK  
Division of The Park National Bank

PARK NATIONAL BANK  
Southwest Ohio & Northern Kentucky

RichlandBank  
Division of The Park National Bank

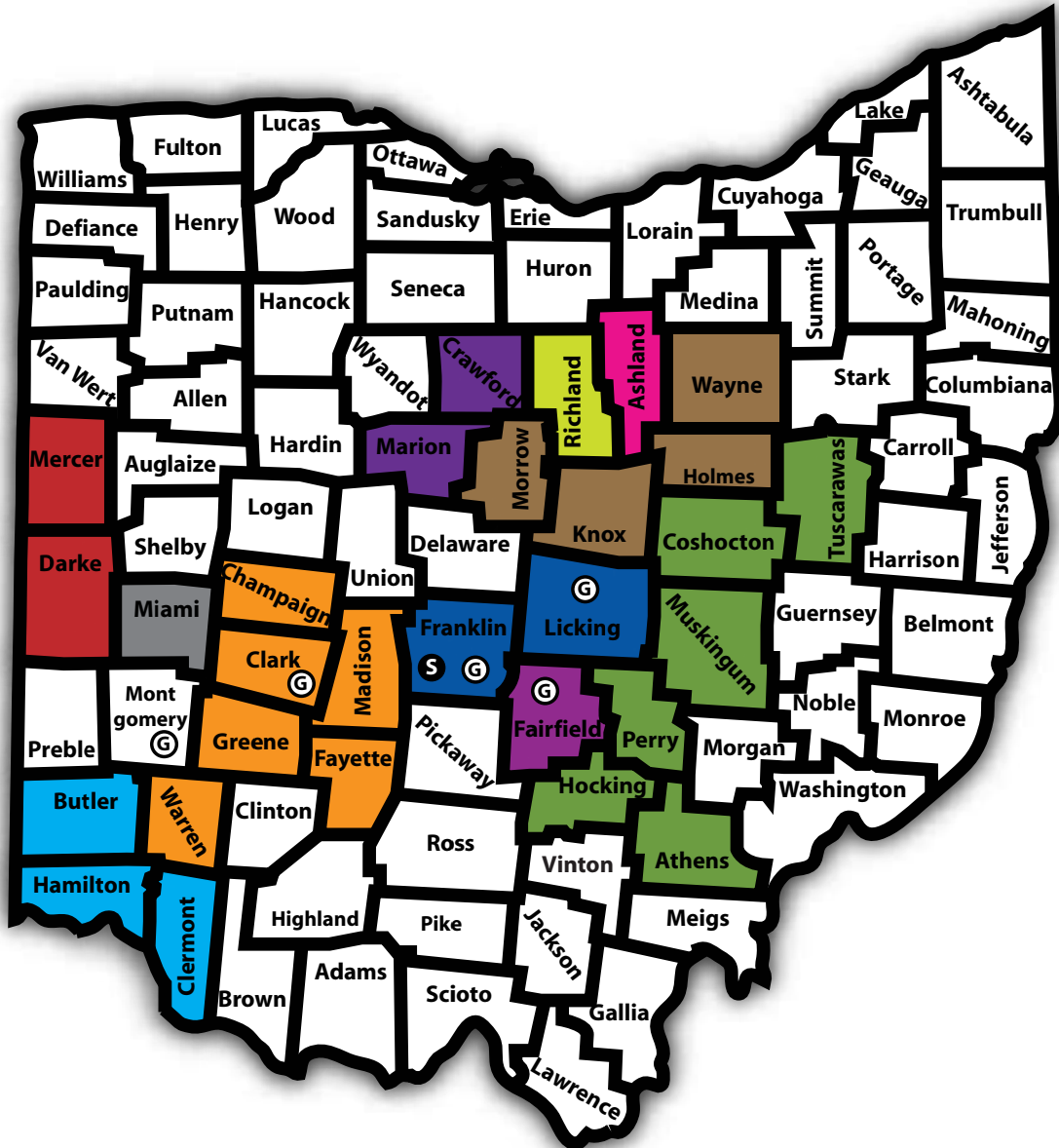
SNB SECOND NATIONAL BANK  
Division of The Park National Bank

Scope Aircraft Finance

SECURITY NATIONAL BANK  
Division of The Park National Bank

United Bank  
Division of The Park National Bank

Unity National Bank  
Division of The Park National Bank



Century National Bank

Fairfield National Bank

Farmers Bank

First-Knox National Bank

The Park National Bank

Park National Bank

Southwest Ohio & Northern Kentucky

Richland Bank

Second National Bank

Security National Bank

United Bank

Unity National Bank

Ⓢ Scope Aircraft Finance

ⓐ Guardian Finance Company

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Writing last year's letter was more fun than writing this one, because we made more money in 2014 than we did in 2015. You will see below that we did not increase our net income year over year, but we are encouraged by the improvement in our efficiency ratio—a metric that informs our strategic thinking and execution.

## Favorite Numbers

Readers of last year's letter recall that we track an extended list of numbers; these are our favorites:

Favorite Number	2015	2014	2013
Net Income (000's)	<b>\$81,012</b>	\$83,957	\$76,869
Return on Equity (ROE)	<b>11.40%</b>	12.34%	11.84%
Return on Assets (ROA)	<b>1.11%</b>	1.22%	1.16%
Net Interest Margin (NIM)	<b>3.39%</b>	3.55%	3.61%
Efficiency Ratio	<b>60.98%</b>	62.21%	61.40%

We like to see the first four numbers increase every year. Alas, they did not. As mentioned, the Efficiency Ratio (smaller number is better) did improve. We have invested countless hours in process improvement, improved execution and efficient revenue generation. The improvement in our efficiency ratio suggests our efforts are beginning to take hold.

## How did we do what we did?

We have three main operating segments in Park National Corporation (PRK) -Park National Bank (PNB), Guardian Finance (GFSC) and SE Property Holdings, LLC (SEPH). To understand how we generated our favorite numbers above, let's review how these segments have performed over the past three years:

### Net Income (loss) by segment (000's)

(In thousands)	2015	2014	2013
<b>PNB</b>	<b>\$84,345</b>	\$82,907	\$75,236
<b>GFSC</b>	<b>1,423</b>	1,175	2,888
Parent Company	<b>(4,549)</b>	(5,050)	(1,397)
Ongoing operations	<b>81,219</b>	79,032	76,727
<b>SEPH</b>	<b>(207)</b>	4,925	142
Total Park Net Income	<b>\$81,012</b>	\$83,957	\$76,869

If PRK is an eight-cylinder engine, PNB represents roughly nine of the eight pistons. As noted above, the eight-cylinder engine (PRK) didn't do as well as last year. But PNB's nine pistons improved by roughly \$1.4 million, and ongoing operations has improved each of the past two years.

Our Annual Report offers more detail on all our financial results.

## Things we did in 2015

**Debit card conversion:** In October, we converted roughly 180,000 debit card accounts from one processor to another. The neat thing is we picked up operational efficiency while positioning ourselves to improve our customers' experience.

**Electronic banking surge:** Many of our customers enjoy the warmth and personal service they receive in our branches. Others appreciate the convenience of conducting banking through their phone, our websites and our mobile apps. Most engage us by some blend of all four. But the trends in electronic banking are unmistakable—in the industry and in our shop. In the past 12 months our digital log-ins have increased 7.4% and in the past 24 months, they have increased 30.4%. We now have over 1.3 million digital interactions each month.

Building on the digital momentum, we introduced our Business Mobile Banking app in the fourth quarter of 2015. We have seen a steady increase in the number of business customers using the application. By using mobile banking to deposit checks and actively manage their accounts, our customers are embracing the ability to bank anytime, anywhere.

**Strategic Plan:** Many, if not most, companies develop strategic plans. We are no different; we completed a refresh of ours late in 2014. Where we may differ from some others is that our strategic plan has not been relegated to a coffee table in our executive suite. One, we don't have any executive suites or coffee tables. Two, we have used our strategic plan to inform how we allocate our talent, attention and financial resources. That is, the challenge is not to develop a list of worthy activities. The challenge is to select only those activities that will enhance our customers' experiences with us, ensure our colleagues have the finest tools available to help customers and produce excellent financial results. We wrote last year that we had to *act* on our strategic plan ... and we are.

**Customer Research results:** Our marketing colleagues conducted a study of our customers' habits, beliefs and practices. The goal was to determine whether what we believe we are providing—unmatched personal attention and valued advice, products and services—is what customers are experiencing. The results were remarkable. Our customers like us and value what we offer. Now we just need to tell our story to more people.

**Rookwood office:** On December 7, 2015, our Park National Bank of Southwest Ohio and Northern Kentucky Division (PSW) opened its newest office just off I-71 five minutes north of downtown Cincinnati in the Rookwood Exchange building on Edwards Road in the Norwood/Rookwood area. It is a full-service office, modeled off our downtown Columbus, Ohio office that specializes in serving the financial needs of small and privately-held businesses. On January 27, 2016, PSW welcomed over 300 people to the office's open house. They and we are excited about their prospects.

**New office in Wooster:** Due to increased traction and demand in Wayne County, our First-Knox National Bank Division (First-Knox) opened a full-service office in May at 2148-G Eagle Pass in Wooster, Ohio. Vickie Sant, president of First Knox, and Bob Boss, area executive for Holmes and Knox Counties, anticipate great things from our new office and we believe them.

**Lending center in New Philadelphia:** In August, our Century National Bank Division (Century) opened a lending center in New Philadelphia at 1255 Monroe Avenue in the Monroe Plaza. The office will help accelerate Century's business in Tuscarawas County by improving access to local lenders who know and live in the area. Pat Nash, president of Century, and Becky Porteus, Coshocton and Tuscarawas County leader, and their colleagues are eager to deepen their involvement in the Dover/New Philadelphia community.

### Things we're thinking about for 2016

**Regulations:** They're still here ... and not diminishing. We are "ok" with this, for we know that our competitors operate in the same environment. Many will continue; however, some will conclude that the game has become too complex. While the game may be complex, we have the talent, the energy and the conviction to operate firmly within the guardrails.

**Customer experience:** We constantly assess how we can improve our customers' experiences with us — whether in person, on the phone or through Internet/mobile apps (we have not begun thinking about banking by telepathy — yet). Our overriding goal is to ensure that however customers decide to engage us, they feel confident and valued. The tools may change, but our interest in excellent customer service is unwavering.

**Contact management:** Last year your Board of Directors approved a significant investment in a new Customer Relationship Management (CRM) system. CRM systems are sort of like Strategic Plans. Everyone gets whipped up about them, then after the introductory party is over, most go back to what they were doing. We won't. We have a culture that breeds business development. The new CRM tool will help us increase business development — by contacting customers and prospects as often as they wish (but not so often that we become a pest) and recording how we can help and when.

**Growth:** Bill McConnell taught us to focus on results, not activity. All that we do must first pass that test; thus, we consider all prospects — whether they be potential deposit, loan or wealth management clients — within that context. We are pleased to report we added customers in all categories. We are grateful to all our colleagues, for our success has been, and always will be, a team effort.

**Mergers/Acquisitions (M&A):** As we write this, two of our Ohio competitors have just announced they are merging. We wish them well. We have spoken with a number of potential acquisition candidates, and don't intend to back off this pace. But we will remain disciplined and patient. We don't *have* to do anything in this area. We will, at some point — when the time and circumstances are right.

**Culture:** In a March 22, 2011 *Harvard Business Review* article, Nilofer Merchant wrote, "Culture will trump strategy, every time". We agree with her. We also believe that a company nears its maximum potential if it is guided by a solid strategic plan (we think ours is), which is animated by people operating within a rich culture of service and performance (we've worked on this for decades, and continue the journey daily).

We ask these questions as we think about our culture:

- "What's best for the customer?"
- "How can we improve our service?"
- "How do we improve shareholder return?"
- "How can we improve our processes?"
- "How can we help our colleagues grow and flourish?"

Like a good garden or a productive field, a company's culture needs to be nurtured, and we spend a good deal of time thinking how we can preserve ours while adapting to the world as it changes.

## New Friends

One of our highest duties is to attract brilliant board members. Here are our newest three:

### James R. DeRoberts

Jim is well known in Ohio community banking circles, providing risk management and insurance advice and products to community banks for more than 30 years. In addition, he and some colleagues started The Arlington Bank (in Columbus, Ohio), so he knows banking literally inside and out. He brings wisdom and practical experience in all phases of banking to his board role.

### Alicia Sweet Hupp

Alicia is President, Chief Executive and Chair of the Board of Sweet Manufacturing in Springfield, Ohio. The firm manufactures a variety of agricultural commodity and industrial material handling and moving equipment. You can find Sweet® equipment in more than 55 countries covering six continents all around the world. The company has won numerous awards for exporting excellence. Having served on our Security National Bank Division advisory board, Alicia brings valuable insights into our affiliates plus wisdom gained from conducting business around the world.

### Julia A. Sloat

Julia (she asks that we call her Julie) is Senior Vice President and Treasurer of American Electric Power Company, Inc., where she has worked for 16 years. A native of Bolivar, Ohio, Julie grew up knowing the value of community and she quickly grasped our unique banking model. In addition, in her professional experiences she has operated at the highest levels of financial and strategic sophistication.

We reflect on what adding these three to our existing all-star Board roster means. Each of our Board members has a life, *and* full-time employment. They are sought after from many sources... but each has decided to devote a portion of their personal and professional time and talent to advancing this organization and supporting those of us who have the privilege of leading it. Pretty cool... and very humbling.

## Who we will miss and why:

### William T. McConnell

We told you in last year's letter that Bill was going to retire effective April 27, 2015. We silently hoped that he might reverse his decision, but he didn't.

Bill is still with us, just not at the corporation. What we think of Bill hasn't changed since last year and never will, so we won't repeat last years' comments. But in a characteristic rookie mistake, your CEO forgot to include his picture — an oversight now corrected.



Bill McConnell

### Paul Van Camp

Paul served as member of Fairfield National Bank Division's (Fairfield) advisory board from April 10, 1990 until he passed away on September 18, 2015. Paul was well known for his love of business and the enjoyment he derived from it. During his time with the Fairfield Advisory Board, Paul was instrumental in Fairfield's success. He regularly provided counsel, direction, referrals and candid feedback to the Fairfield's leaders. He was tough, but fair; demanding yet understanding. Paul made us better.



Paul Van Camp

## Affiliate Accolades

We think of our bank divisions as affiliates. These affiliates are staffed by bright, capable people who live, serve and work in their communities. Here's a partial list of accolades they and/or their associates received last year:

**Richland Bank Division:** *Mansfield News Journal* Best of Mid-Ohio – “Best Financial Institution of Mid-Ohio” and “Best Local Bank of Mid-Ohio”

**Security National Bank Division:** Greater Springfield Chamber of Commerce – “2015 Big Business of the Year”

**Fairfield National Bank Division:** Vice President and Trust Officer Laura Tussing received the Young Professional of the Year from the Fairfield County Chamber of Commerce

**Unity National Bank Division:** Piqua Area United Way – “Award of Excellence”

**Park National Bank of Southwest Ohio and Northern Kentucky Division:** Clermont Chamber of Commerce – “Corporate Citizen of the Year”; Greater Cincinnati USA Chamber – “Community Citizen of the Year” Runner-Up

**First Knox National Bank Division:** “Governor’s Award for Arts in Ohio” for their support of the Arts in Knox County

**Second National Bank Division:** *Daily Advocate* – “Best Bank,” “Best Mortgage Lender,” “Best Investment Services,” and “Best Tellers” in Darke County

**United Bank Division:** Retail leader Jennifer Kuns was recognized as Professional of the Year by the Galion/Crestline Chamber of Commerce

**Park National Bank Division:** Ohio Statewide Development Corporation – Community Bank of the Year; Ohio Association of Community Colleges – Outstanding Business Partnership of the Year; Columbus Business First-Education category – Corporate Caring Award; *Columbus CEO* magazine – Best Commercial Mortgage Lender Award; *Columbus Business First* – #1 Community Bank based in Central Ohio; *The Advocate/Gannett* – Best Bank as voted by its readers; King Arts Complex – Dream Award-Corporation

### Final thoughts

Each day, we remind ourselves to be grateful ... and humble. We are standing on the shoulders of giants, leaders who have put us in position to thrive. Now the job is ours. We live in a free country; we work with excellent colleagues; we serve customers and communities that value what we do ... and the best is all ahead.

### Final Quote

We think a lot about service. The following quote from Nobel laureate Rabindranath Tagore captures our position well:

*I Slept and Dreamt  
That Life was Joy  
I Awoke, and Saw  
That Life was Service  
I Acted, and Behold  
Service was Joy.*

We find great joy in serving. Please let us serve *you*, and anyone you care to send our way.



**C. Daniel DeLawder**  
Chairman of the Board



**David L. Trautman**  
Chief Executive Officer and President

## FINANCIAL HIGHLIGHTS

(In thousands, except per share data)	2015	2014	Percent Change
<b>Earnings:</b>			
Total interest income	\$ 265,074	\$ 265,143	-0.03%
Total interest expense	37,442	40,099	-6.63%
Net interest income	227,632	225,044	1.15%
Net income	81,012	83,957	-3.51%
<b>Per Share:</b>			
Net income – basic	5.27	5.45	-3.30%
Net income – diluted	5.26	5.45	-3.49%
Cash dividends declared	3.76	3.76	—
Common book value (end of period)	46.53	45.25	2.83%
<b>At Year-End:</b>			
Total assets	\$7,311,354	\$7,001,199	4.43%
Deposits	5,347,642	5,128,000	4.28%
Loans	5,068,085	4,829,682	4.94%
Investment securities	1,643,879	1,500,788	9.53%
Total borrowings	1,177,347	1,108,582	6.20%
Total shareholders' equity	713,355	696,541	2.41%
<b>Ratios:</b>			
Return on average equity	11.40%	12.34%	-7.62%
Return on average assets	1.11%	1.22%	-9.02%
Efficiency ratio	60.98%	62.21%	-1.98%



**STOCK LISTING:**

NYSE MKT Symbol – PRK  
CUSIP #700658107

**GENERAL SHAREHOLDER INQUIRIES:**

Park National Corporation  
Brady T. Burt, Secretary  
50 North Third Street  
Post Office Box 3500  
Newark, Ohio 43058-3500  
740/349-3927

**DIVIDEND REINVESTMENT PLAN:**

The Corporation offers a plan whereby participating shareholders can purchase additional Park National Corporation common shares through automatic reinvestment of their regular quarterly cash dividends. All commissions and fees connected with the purchase and safekeeping of the common shares are paid by the Corporation. Details of the plan and an enrollment card can be obtained by contacting the Corporation's Stock Transfer Agent and Registrar as indicated below.

**DIRECT DEPOSIT OF DIVIDENDS:**

The Corporation's shareholders may have their dividend payments directly deposited into their checking, savings or money market account. This direct deposit of dividends is free for all shareholders. If you have any questions or need an enrollment form, please contact the Corporation's Stock Transfer Agent and Registrar as indicated below.

**STOCK TRANSFER AGENT AND REGISTRAR:**

The Park National Bank Shareholder Services  
located at First-Knox National Bank,  
Division of The Park National Bank  
Post Office Box 1270  
One South Main Street  
Mount Vernon, Ohio 43050-1270  
740/399-5208, 800/837-5266 Ext. 5208  
shareholderservices@firstknox.com

**FORM 10-K:**

All forms filed by the Corporation with the SEC (including our Form 10-K for 2015) are available on our website by clicking on the "SEC Filing" section and then the "Documents/ SEC Filings" section of the "Investor Relations" page. These forms may also be obtained, without charge, by contacting the Secretary as indicated above.

**INTERNET ADDRESS:**

[www.parknationalcorp.com](http://www.parknationalcorp.com)

**E-MAIL:**

Brady T. Burt  
[bburt@parknationalbank.com](mailto:bburt@parknationalbank.com)

**Total Financial Service Centers:** 122  
**Total ATMs:** 141  
**Website:** ParkNationalCorp.com  
**Asset Size:** \$7.3 billion  
**Headquarters:** Newark, Ohio  
**NYSE MKT:** PRK



**Donna M. Alvarado**  
President  
AGUILA International



**Maureen H. Buchwald**  
Owner  
Glen Hill Orchards, Ltd.



**Brady T. Burt**  
Chief Financial Officer  
Park National Corporation



**C. Daniel DeLawder**  
Chairman  
Park National Corporation



**James R. DeRoberts**  
Partner  
Gardiner, Allen,  
DeRoberts Insurance



**F.W. Englefield, IV**  
President  
Englefield, Inc.



**Alicia Sweet Hupp**  
President and CEO  
Sweet Manufacturing  
Company



**Stephen J. Kambeitz**  
President and CFO  
R.C. Olmstead, Inc.



**Timothy S. McLain**  
Vice President  
McLain, Hill, Rugg &  
Associates, Inc.



**Robert E. O'Neill**  
President  
Southgate Corporation



**Julia A. Sloat**  
Treasurer  
American Electric  
Power



**Rick R. Taylor**  
President  
Jay Industries, Inc.



**David L. Trautman**  
President  
Park National Corporation



**Leon Zazworsky**  
President  
Mid State Systems, Inc.

**William T. McConnell**  
Director Emeritus

**J. Gilbert Reese**  
Director Emeritus

Brady T. Burt is the Chief Financial Officer and not a member of the board of directors.

## Officer Listing

**Chairman**  
C. Daniel DeLawder

**President**  
David L. Trautman

**Chief Financial Officer**  
Brady T. Burt

# CENTURY NATIONAL BANK

DIVISION OF THE PARK NATIONAL BANK

**Offices:** 16    **ATMs:** 14

**Website:** CenturyNationalBank.com

**Phone:** 740.454.2521 or 800.321.7061

**Chairman:** Thomas M. Lyall

**President:** Patrick L. Nash

**Counties Served:** Athens, Coshocton, Hocking, Muskingum, Perry, Tuscarawas

## Main Office - Zanesville

14 South Fifth Street  
Post Office Box 1515  
Zanesville, Ohio 43702-1515  
740.454.2521

## Athens\*

898 East State Street  
Athens, Ohio 45701-2115  
740.593.7756

## Coshocton\*

100 Downtowner Plaza  
Coshocton, Ohio 43812-1921  
740.623.0114

## Dresden\*

91 West Dave Longaberger Avenue  
Dresden, Ohio 43821-9726  
740.754.2265

## Logan\*

61 North Market Street  
Logan, Ohio 43138-1272  
740.385.5621

## New Concord\*

1 West Main Street  
New Concord, Ohio 43762-1218  
740.826.7676

## New Lexington\*

206 North Main Street  
New Lexington, Ohio 43764-1263  
740.342.4103

## New Philadelphia Lending Center

1255 Monroe Avenue  
New Philadelphia, Ohio 44663-4139  
330.681.7000

## Newcomerstown\*

220 East State Street  
Newcomerstown, Ohio 43832-1451  
740.498.4103

## Zanesville - East\*

80 Sunrise Center Drive  
Zanesville, Ohio 43701-6601  
740.455.7305

## Zanesville - Kroger\*

3387 Maple Avenue  
Zanesville, Ohio 43701-1338  
740.455.7326

## Zanesville - Lending Center\*

505 Market Street  
Zanesville, Ohio 43701-3610  
740.454.6892

## Zanesville - North\*

1201 Brandywine Boulevard  
Zanesville, Ohio 43701-1086  
740.455.7285

## Zanesville - North Military\*

990 Military Road  
Zanesville, Ohio 43701-1387  
740.454.8505

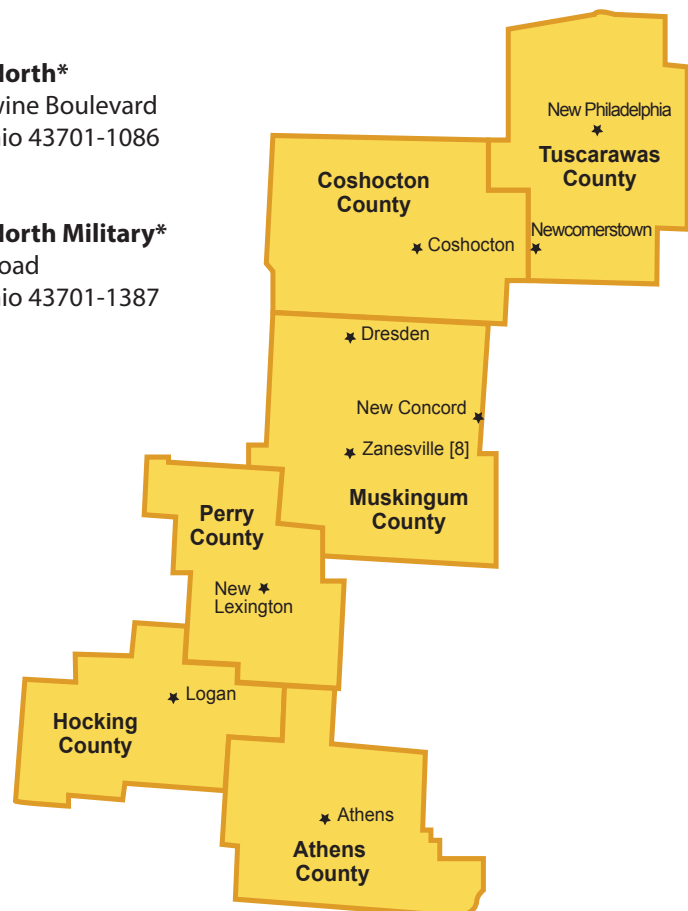
## Zanesville - South\*

2127 Maysville Avenue  
Zanesville, Ohio 43701-5748  
740.455.7301

## Zanesville - South Maysville\*

2810 Maysville Pike  
Zanesville, Ohio 43701-8577  
740.455.3169

\*Includes Automated Teller Machine



# CENTURY

## NATIONAL BANK

DIVISION OF THE PARK NATIONAL BANK

### Advisory Board

**Michael L. Bennett**  
Second Capital Consulting, LLC

**Clinton W. Cameron**  
Cameron Drilling Company

**Ward D. Coffman, III**  
Coffman Law Offices

**Robert D. Goodrich, II**  
Retired, Wendy's Management  
Group, Inc.

**Patrick L. Hennessey**  
P&D Transportation, Inc.

**Henry C. Littick, II**  
Southeastern Ohio  
Broadcasting Systems, Inc.

**Thomas M. Lyall**  
Chairman, Century  
National Bank

**Timothy S. McLain, CPA**  
McLain, Hill, Rugg and  
Associates, Inc.

**Patrick L. Nash**  
President, Century  
National Bank

**Dr. Anne C. Steele**  
Muskingum University

**Dr. Robert J. Thompson**  
Neurological Associates of  
Southeastern Ohio, Inc.

Julie A. Brown and Scott D.  
Eickelberger joined the board  
effective February 16, 2016.

### Officer Listing

**Chairman**  
Thomas M. Lyall

**President**  
Patrick L. Nash

**Senior Vice Presidents**  
James C. Blythe  
Barbara A. Gibbs  
Jody D. Spencer\*  
Michael F. Whiteman

**Vice Presidents**  
Joseph P. Allen  
Robert W. Bigrigg  
Derek A. Boothe  
Theresa M. Gilligan

Jeffrey C. Jordan  
Brian G. Kaufman  
Bruce D. Kolopajlo  
Rebecca R. Porteus  
Thomas N. Sulens

**Assistant Vice Presidents**  
Ann M. Gildow  
Stephen A. Haren  
Susan A. Lasure  
Paula L. Meadows  
Martin L. Merryman  
William J. Murphy\*  
Jodi C. Pagath  
Amy M. Pinson  
Terri L. Sidwell  
Cynthia J. Snider

Victoria M. Thomas  
Jennifer L. Thompson

**Banking Officers**  
Darin S. Alexander  
Jessica L. Cranz  
Susan T. Edwards  
Lynn M. Garrison  
Noelle K. Jarrett  
Alaina J. Joseph  
Jeremy A. Morrow  
William E. Rinehart  
Paula J. Stewart  
Susan L. Summers

**Administrative Officers**  
Molly J. Allen  
Jana R. Brandon  
John D. DalPonte  
Sonya R. Denny  
Amber M. Gibson  
Sandra D. Jones  
Saundra W. Pritchard  
Christy S. Robinson  
Gary R. Russell II  
Kandy M. Sampsel  
Emila S. Smith  
Beth A. Stillwell  
Elaine L. White  
Jason L. Wilhelm

\*Trust Officer

# FAIRFIELD NATIONAL BANK

DIVISION OF THE PARK NATIONAL BANK

**Offices:** 10    **ATMs:** 14  
**Website:** [FairfieldNationalBank.com](http://FairfieldNationalBank.com)  
**Phone:** 740.653.7242 or 800.324.7353  
**President:** Stephen G. Wells  
**Counties Served:** Fairfield, Franklin

## Main Office - Lancaster\*

143 West Main Street  
Post Office Box 607  
Lancaster, Ohio 43130-0607  
740.653.7242

## Main Office Drive-Thru\*

150 West Wheeling Street  
Lancaster, Ohio 43130-3707  
740.653.7242

## Baltimore\*

1301 West Market Street  
Baltimore, Ohio 43105-1044  
740.862.4104

## Canal Winchester - Kroger\*

6095 Gender Road  
Canal Winchester, Ohio 43110  
614.920.2454

## Lancaster - East Main\*

1001 East Main Street  
Lancaster, Ohio 43130  
740.653.5598

## Lancaster - East Main Street - Kroger\*

1141 East Main Street  
Post Office Box 607  
Lancaster, Ohio 43130-0607  
740.653.9375

## Lancaster - Meijer\*

2900 Columbus-Lancaster Road  
Post Office Box 607  
Lancaster, Ohio 43130-0607  
740.687.1000

## Lancaster - Memorial Drive\*

1280 North Memorial Drive  
Lancaster, Ohio 43130  
740.653.1422

## Lancaster - West Fair\*

1001 West Fair Avenue  
Lancaster, Ohio 43130  
740.653.1199

## Pickerington - Kroger\*

1045 Hill Road North  
Pickerington, Ohio 43147  
614.759.1522

## Reynoldsburg - Slate Ridge\*

1988 Baltimore-Reynoldsburg Road  
(Route 256)  
Reynoldsburg, Ohio 43068  
614.868.1988

## Off-Site ATM Locations

### Lancaster - Fairfield Medical Center (2)

401 North Ewing Street

### Lancaster - Ohio University - Lancaster

1570 Granville Pike

\*Includes Automated Teller Machine



# FAIRFIELD NATIONAL BANK

DIVISION OF THE PARK NATIONAL BANK

## Advisory Board

**Charles P. Bird, Ph.D.**  
Retired, Ohio University

**Leonard F. Gorsuch**  
Fairfield Homes, Inc.

**Jonathan W. Nusbaum, M.D.**  
Retired, Surgeon

**Stephen G. Wells**  
President, Fairfield  
National Bank

**Dean DeRolph**  
Kumler Collision and  
Automotive

**Eleanor V. Hood**  
The Lancaster Festival

**S. Alan Risch**  
Risch Drug Stores, Inc.

**Jennifer Johns Friel**  
Midwest Fabricating  
Company

**James L. McLain, II**  
McLain, Hill, Rugg and  
Associates, Inc.

## Officer Listing

**President**  
Stephen G. Wells

**Senior Vice President**  
Timothy D. Hall

**Vice Presidents**  
Daniel R. Bates  
Scott A. Reed  
Laura F. Tussing\*

**Assistant Vice Presidents**  
Molly S. Bates  
Jamey L. Binkley  
Michael D. Mitchell\*  
Trudy M. Reeb  
Jason A. Saul  
Kim I. Sheldon  
Luann K. Snyder\*

**Banking Officers**  
Grace R. Cline  
Andrew J. Connell  
Daniel J. Fawcett\*  
Edward J. Gurile, III  
Melissa J. McMullen  
Cynthia A. Moore  
Sean P. Murnane  
Tiffany J. Ruckman  
Brenda S. Shamblin  
Allison G. Spangler\*  
Tina L. Taley

**Administrative Officers**  
Vincent E. Carpico  
Eric W. Croft  
Lori A. McElfresh  
Katherine A. Smiley

\*Trust Officer

# FarmersBank

**Farmers and Savings Bank**  
DIVISION OF THE PARK NATIONAL BANK

**Offices:** 3    **ATMs:** 4  
**Website:** FarmersandSavings.com  
**Phone:** 419.994.4115 or 855.345.0899  
**President:** Brian R. Hinkle  
**County Served:** Ashland

**Main Office - Loudonville\***  
120 North Water Street  
Post Office Box 179  
Loudonville, Ohio 44842-0179  
419.994.4115

**Off-Site ATM Location**  
**Loudonville - Stake's Short Stop**  
3052 State Route 3

\*Includes Automated Teller Machine

**Ashland\***  
1161 East Main Street  
Ashland, Ohio 44805-2831  
419.281.1590

**Perrysville\***  
112 North Bridge Street  
Post Office Box 156  
Perrysville, Ohio 44864-0156  
419.938.5622



## Advisory Board

**Patricia A. Byerly**  
Retired, Byerly-Lindsey  
Funeral Home

**Brian R. Hinkle**  
President, Farmers and  
Savings Bank

**Chris D. Tuttle**  
Amish Oak Furniture  
Company, Inc.

**Gordon E. Yance**  
Chairman of the Board,  
First-Knox National Bank Division

**Timothy R. Cowen**  
Cowen Truck Line, Inc.

**Roger E. Stitzlein**  
Loudonville Farmers Equity

## Officer Listing

**President**  
Brian R. Hinkle

**Assistant Vice President**  
Gregory A. Henley

**Banking Officer**  
Todd A. Geren

**Administrative Officer**  
Brenda S. Mitchell

**Vice President**  
Sharon E. Blubaugh



**Offices:** 10    **ATMs:** 18  
**Website:** FirstKnox.com  
**Phone:** 740.399.5500 or 800.837.5266  
**President:** Vickie A. Sant  
**Counties Served:** Holmes, Knox, Morrow, Richland, Wayne

**Main Office - Mount Vernon\***  
 One South Main Street  
 Post Office Box 1270  
 Mount Vernon, Ohio 43050-1270  
 740.399.5500

**Bellville\***  
 154 Main Street  
 Bellville, Ohio 44813-1237  
 419.886.3711

**Centerburg\***  
 35 West Main Street  
 Post Office Box F  
 Centerburg, Ohio 43011-0870  
 740.625.6136

**Danville\***  
 4 South Market Street  
 Post Office Box 29  
 Danville, Ohio 43014-0029  
 740.599.6686

**Fredericktown\***  
 137 North Main Street  
 Fredericktown, Ohio 43019-1109  
 740.694.2035

**Millersburg\***  
 225 North Clay Street  
 Millersburg, Ohio 44654-1101  
 330.674.2610

**Mount Gilead\***  
 504 West High Street  
 Mount Gilead, Ohio 43338-1212  
 419.946.9010

**Mount Vernon - Blackjack Road\***  
 8641 Blackjack Road  
 Mount Vernon, Ohio 43050-9485  
 740.399.5260

**Mount Vernon - Coshocton Avenue\***  
 810 Coshocton Avenue  
 Mount Vernon, Ohio 43050-1922  
 740.397.5551

**Mount Vernon - Operations Center**  
 105 West Vine Street  
 Post Office Box 1270  
 Mount Vernon, Ohio 43050-1270  
 740.399.5500

**Wooster**  
 2148 Eagle Pass, Suite G  
 Wooster, Ohio 44691-5357  
 740.399.5500

**Off-Site ATM Locations**  
**Fredericktown - Fast Freddie's**  
 89 South Main Street

**Gambier - Kenyon College Bookstore**  
 106 Gaskin Avenue

**Howard - Apple Valley**  
 21973 Coshocton Road

**Millersburg - BAGS**  
 88 East Jackson Street

**Mount Gilead - Morrow County Hospital**  
 651 West Marion Road

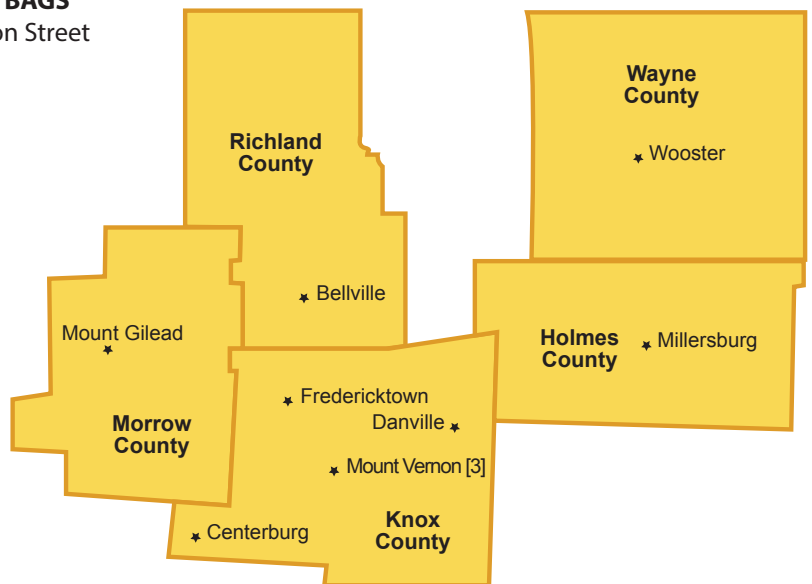
**Mount Vernon - Colonial City Lanes**  
 110 Mount Vernon Avenue

**Mount Vernon - COTC - Ariel Hall**  
 236 South Main Street

**Mount Vernon - Knox Community Hospital**  
 1330 Coshocton Road

**Mount Vernon**  
 11 West Vine Street

\*Includes Automated Teller Machine







## Advisory Board

**Maureen H. Buchwald**  
Glen Hill Orchards, Ltd.

**William B. Levering**  
Levering Management, Inc.

**Daniel L. Mathie**  
Critchfield, Critchfield &  
Johnston, Ltd.

**Noel C. Parrish**  
NOE, Inc.

**Mark R. Ramser**  
Ohio Cumberland Gas Co.

**Vickie A. Sant**  
President, First-Knox  
National Bank

**R. Daniel Snyder**  
Retired Director, Snyder  
Funeral Homes, Inc.

**Roger E. Stitzlein**  
Loudonville Farmers Equity

**Gordon E. Yance**  
Chairman, Retired President,  
First-Knox National Bank Division

## Officer Listing

**Chairman**  
Gordon E. Yance

**President**  
Vickie A. Sant

**Senior Vice Presidents**  
Robert E. Boss  
Cheri L. Butcher\*  
Julie A. Leonard

**Vice Presidents**  
Cynthia L. Higgs  
James W. Hobson  
Jerry D. Simon  
Joan M. Stout  
Todd P. Vermilya

**Assistant Vice Presidents**  
Timothy H. Bahler  
Heather A. Brayshaw  
Phyllis D. Colopy  
Rachelle E. Dallas  
Deborah S. Dove  
Wendi M. Fowler\*  
Todd M. Hawkins\*  
Debra E. Holiday  
R. Edward Kline  
Mary A. Loyd  
James S. Meyer

**Banking Officers**  
Gabriel J. Aufrance  
Nicholas R. Blanchard  
Levi D. Curry  
Lance E. Dill  
Kassandra L. Hoeflich  
David E. Humphrey  
Darrell E. Lee  
Sherry L. Snyder  
Steven A. Waers

**Administrative Officers**  
Nicole S. Au  
Katherine M. Bartlebaugh\*\*  
Deborah J. Daniels  
Krystal E. Drye  
Laurie P. Gallwitz  
Cynthia K. Hogle  
Jeffrey A. Kinney  
Matia M. Mathews  
Paul J. Mayville  
Douglas R. McCann  
Paulina S. McQuigg  
Fawn J. Mollenkopf  
Tiffany D. Stefano

\*Trust Officer

\*\*Assistant Trust Officer



**Offices:** 16    **ATMs:** 22  
**Website:** ParkNationalBank.com  
**Phone:** 740.349.8451 or 888.545.4762  
**Chairman:** C. Daniel DeLawder  
**President:** David L. Trautman  
**Counties Served:** Franklin, Licking

**Main Office - Newark\***

50 North Third Street  
 Post Office Box 3500  
 Newark, Ohio 43058-3500  
 740.349.8451

**Columbus**

140 East Town Street, Suite 1400  
 Columbus, Ohio 43215  
 614.228.0063

**Gahanna - Kroger\***

1365 Stoneridge Drive  
 Gahanna, Ohio 43230  
 614.475.5213

**Granville\***

119 East Broadway  
 Granville, Ohio 43023  
 740.587.0238

**Heath - Southgate\***

567 Hebron Road  
 Heath, Ohio 43056  
 740.522.3176

**Heath - 30th Street\***

800 South 30th Street  
 Heath, Ohio 43056  
 740.522.5693

**Hebron\***

103 East Main Street  
 Post Office Box 268  
 Hebron, Ohio 43025  
 740.928.2691

**Johnstown\***

60 West Coshocton Street  
 Post Office Box 446  
 Johnstown, Ohio 43031  
 740.967.1831

**Newark - Deo Drive - Kroger\***

245 Deo Drive, Suite A  
 Newark, Ohio 43058  
 740.349.3946

**Newark - Dugway\***

1495 Granville Road  
 Newark, Ohio 43055  
 740.349.3947

**Newark - Eastland\***

1008 East Main Street  
 Newark, Ohio 43055  
 740.349.3942

**Newark - McMillen\***

1633 West Main Street  
 Newark, Ohio 43055  
 740.349.3944

**Newark - 21st Street\***

990 North 21st Street  
 Newark, Ohio 43055  
 740.349.3943

**Newark - Operations Centers**

21 South First Street  
 22 South First Street  
 51 North Third Street  
 Newark, Ohio 43055  
 740.349.8633

**Pataskala - Kroger\*\***

350 East Broad Street  
 Pataskala, Ohio 43062  
 740.927.8113

**Utica\***

33 South Main Street  
 Post Office Box 486  
 Utica, Ohio 43080  
 740.892.3841

**Worthington\***

7140 North High Street  
 Worthington, Ohio 43085  
 614.841.0123

**Off-Site ATM Locations**

**Granville - Denison University**

Slayter Hall

**Granville - Kendal at Granville**

2158 Columbus Road

**Hebron - Kroger**

600 East Main Street

**Newark - Licking Memorial Hospital**

1320 West Main Street

**Newark - OSU-N/COTC Campus**

1179 University Drive

**Reynoldsburg - Kroger**

6962 East Main Street

\*Includes Automated Teller Machine  
 \*\*Includes Automated Teller Machine  
 Drive-up and Inside



## Board of Directors

**Donna M. Alvarado**  
AGUILA International

**F.W. Englefield, IV**  
Englefield, Inc.

**Robert E. O'Neill**  
Southgate Corporation

**David L. Trautman**  
President, Park National Bank

**C. Daniel DeLawder**  
Chairman, Park National Bank

**Stephen J. Kambietz**  
R.C. Olmstead, Inc.

**J. Gilbert Reese**  
Director Emeritus

**Leon Zazworsky**  
Mid State Systems, Inc.

**James R. DeRoberts**  
Gardiner, Allen, DeRoberts  
Insurance

**William T. McConnell**  
Director Emeritus

**Julia A. Sloat**  
American Electric Power

## Officer Listing

### Chairman

C. Daniel DeLawder

### President

David L. Trautman

### Senior Vice Presidents

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Thomas J. Button  
Thomas M. Cummiskey\*  
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Matthew R. Miller  
Cheryl L. Snyder  
Paul E. Turner  
Jeffrey A. Wilson

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Cynthia L. Crane  
Kathleen O. Crowley  
Jaqueline L. Davis  
Lori T. Drake  
April R. Dusthimer  
Kelly A. Edds  
Brian J. Elder  
Jill S. Evans  
Joan L. Franks  
Sandra L. Furterer  
Jerrod F. Gambs  
John S. Gard\*  
Jeffrey C. Gluntz  
Scott C. Green  
Frederick G. Hadley

Linda M. Harris  
Christopher R. Hiner  
Damon P. Howarth\*  
Daniel L. Hunt  
Andrew H. Knoesel  
Teresa M. Kroll\*  
Craig M. Larson  
Mark A. Longstreth  
Kelly M. Maloney  
Carl H. Mayer  
Lydia E. Miller  
Jennifer L. Morehead  
Cynthia A. Neely  
Jason L. Painley  
Kathy A. Patton  
Gregory M. Rhoads  
Karen K. Rice  
Scott R. Robertson  
David J. Rohde  
Ralph H. Root, III  
Alan C. Rothweiler  
Christine S. Schneider  
Michael R. Shannon  
Eric M. Sideri  
Robert G. Springer  
Julie L. Strohacker\*  
Peggy A. Tidwell  
Sandra S. Travis  
Berkley C. Tuggle, Jr.  
Daniel H. Turben  
Stanley A. Uchida  
John B. Uible\*  
Monte J. VanDeusen  
Bradden E. Waltz  
Barbara A. Wilson  
Christa D. Wright  
J. Bradley Zellar\*

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Corey S. Alton  
Kevin J. Andrew

Eric M. Baker\*  
Renee L. Baker  
Brent A. Barnes  
Gail A. Blizzard  
Sharon L. Bolen  
Stephen E. Buchanan  
Beverly A. Clark\*  
Jennifer G. Corbitt  
Amber L. Cummins\*  
Aaron T. Dunifon  
Amanda K. Evans  
Catherine J. Evans  
Andrew J. Fackler  
Jennifer S. Favand  
Brenda M. Frakes  
David W. Hardy\*  
Louise A. Harvey  
Teresa A. Hennessy  
Cynthia L. Kissel  
Steven J. Klein  
Candy J. Lehman  
Bethany B. Lewis  
Daniel K. Maloney  
Julia E. McCormack  
William L. Nelson  
Karen L. Pavone  
Tracey E. Ramsey  
Steven E. Ritzer  
Mareion A. Royster\*  
Jennifer L. Shanaberg  
James O. Spichiger  
John A. Stevens  
Lisa E. Stranger  
Lori B. Tabler  
Alton P. Thompson  
Angie D. Treadway  
Scott A. VanHorn  
Ginger R. Varner  
Jenny L. Ward  
Megan C. Warman\*  
Heather N. Wiley

D. Bradley Wilkins  
John C. Wolters  
Ryan D. Wood

### Banking Officers

Ellen P. Akey  
Kathy L. Allen  
Stephanie J. Allen  
Jessica J. Altman  
Lindsay M. Alton  
Michelle L. Arnold  
Thomas E. Ballard  
Brad G. Chance  
Erica L. Chance  
Tara L. Craaybeek  
Michael D. Dudgeon  
Kathryn S. Firestone  
Allen S. Fish  
Adrienne L. Fisher  
Abigail C. Hobbs  
Candy L. Holbrook  
Cynthia R. Hollis  
Amber L. Keirns  
Kimberly G. McDonough  
Kathy K. Myers\*  
Diane M. Oberfield\*  
Sherri L. Pembrook  
Lacie M. Priest  
Paul P. Ragias  
Michelle A. Rood  
Jessica L. Royster  
Leda J. Rutledge  
Ruth Y. Sawyer  
Charles F. Schultz  
Rose M. Wilson  
Barry H. Winters

### Administrative Officers

Brandon M. Akey  
Robert S. Allison  
Jack E. Arthur

Kimberly K. Ballmann  
Andrea N. Bardsley  
Jennifer F. Bobb\*\*  
Rena M. Buchanan  
Jill E. Burnworth  
Belinda L. Cole  
Emily L. Cook  
Nathan T. Cook  
Regina B. Cullison  
Teresa K. Faris  
Jamie G. Fillippi\*\*  
Maxwell M. Fischer  
Andrea J. Ford  
Jordan E. Green  
Darcy D. Grossett  
Adam S. Hoar\*\*  
Asher D. Hunter  
Timothy A. Keith  
Lisa A. Keller  
Lauren M. Kellett\*\*  
Diann M. Langwasser  
Shane R. Layne  
Jessica M. McPeck  
April D. Milby  
Denise A. Miller\*\*  
Aaron B. Mueller  
Rodger D. Orr  
Scott D. Parks  
Jeffrey A. Pillow  
Joyce A. Reaser  
Abigail R. Rehbeck\*\*  
Zachary A. Reuscher  
Jessica L. Schorger  
Melissa N. Spain  
Michelle M. Tipton  
Laura S. Wright  
David S. Zambo

\*Trust Officer

\*\*Assistant Trust Officer

# PARK

## NATIONAL BANK

Southwest Ohio & Northern Kentucky

**Offices:** 9    **ATMs:** 9

**Website:** BankWithPark.com

**Phone:** 513.576.0600 or 888.474.7275

**President:** David J. Gooch

**Counties Served:** Butler, Clermont,  
Hamilton

### Main Office - Eastgate\*

4550 Eastgate Boulevard  
Cincinnati, Ohio 45245  
513.753.0900

### Amelia - Main Street\*

5 West Main Street  
Amelia, Ohio 45102  
513.753.5700

### Amelia - Ohio Pike\*

1187 Ohio Pike  
Amelia, Ohio 45102  
513.753.7283

### Anderson\*

1075 Nimitzview Drive  
Cincinnati, Ohio 45230  
513.232.9599

### Milford\*

25 Main Street  
Milford, Ohio 45150  
513.831.4400

### New Richmond\*

100 Western Avenue  
New Richmond, Ohio 45157  
513.553.3131

### Owensville\*

5100 State Route 132  
Owensville, Ohio 45160  
513.732.2131

### Rookwood\*

3825 Edwards Road, Suite 520  
Cincinnati, Ohio 45209  
513.718.6040

### West Chester\*

8366 Princeton-Glendale Road  
West Chester, Ohio 45069  
513.346.2000

\*Includes Automated Teller Machine



## Advisory Board

### Thomas J. Button

Senior Vice President  
Park National Bank

### David J. Gooch

President,  
Park National Bank of Southwest  
Ohio and Northern Kentucky

### Richard W. Holmes

Retired,  
PricewaterhouseCoopers, LLP

### Thomas E. Niehaus

Vorys Advisors LLC

### Daniel L. Earley

Chairman, Retired President,  
Park National Bank of Southwest  
Ohio and Northern Kentucky

### Martin J. Grunder, Jr.

Grunder Landscaping Co.

### Larry H. Maxey

Synchronic Business Solutions

## Officer Listing

### President

David J. Gooch

### Senior Vice Presidents

Jennifer K. Fischer  
William M. Schumacker\*  
Adam T. Stypula

### Vice Presidents

Jay F. Berliner  
Jason D. Hughes

William L. Jennewein\*

Timothy A. Kemper  
Louis J. Prabell  
Ginger L. Vining  
Joseph A. Wagner

### Assistant Vice Presidents

Matthew M. Bauer  
Matthew D. Colwell  
Ed K. Cunningham  
Kim J. Cunningham

Sam J. DeBonis

James E. Hyson  
William K. Wright

### Banking Officers

Jana M. Beal  
Stephanie D. Fahrnbach  
Michelle R. Hamilton  
Rachel L. Swisshelm  
Jason O. Verhoff  
Cyndy H. Wright

### Administrative Officers

James P. Beck  
Michael S. Dumbauld  
April M. Prather  
Michelle M. Sandlin  
Kevin M. Shellberg  
Danielle N. Thiel

\*Trust Officer

# Richland Bank

DIVISION OF THE PARK NATIONAL BANK

**Offices:** 12    **ATMs:** 12  
**Website:** RichlandBank.com  
**Phone:** 419.525.8700 or 800.525.8702  
**President:** John A. Brown  
**County Served:** Richland

**Main Office - Mansfield\***  
3 North Main Street  
Post Office Box 355  
Mansfield, Ohio 44901-0355  
419.525.8700

**Butler\***  
85 Main Street  
Butler, Ohio 44822-9618  
419.883.3291

**Lexington\***  
276 East Main Street  
Lexington, Ohio 44904-1300  
419.884.1054

**Mansfield - Ashland Road\***  
797 Ashland Road  
Mansfield, Ohio 44905-2075  
419.589.6321

**Mansfield - Cook Road\***  
460 West Cook Road  
Mansfield, Ohio 44907-2395  
419.756.3696

**Mansfield - Lexington Avenue - Kroger\***  
1500 Lexington Avenue  
Mansfield, Ohio 44907-2632  
419.756.3587

**Mansfield - Madison - Kroger\***  
1060 Ashland Road  
Mansfield, Ohio 44905-8797  
419.589.7481

**Mansfield - Marion Avenue\***  
50 Marion Avenue  
Mansfield, Ohio 44903-2302  
419.524.3310

**Mansfield - Springmill\***  
889 North Trimble Road  
Mansfield, Ohio 44906-2009  
419.747.4821

**Mansfield - West Park\***  
1255 Park Avenue West  
Mansfield, Ohio 44906-2810  
419.529.5822

**Ontario\***  
325 North Lexington-Springmill Road  
Ontario, Ohio 44906-1218  
419.529.4112

**Shelby - Mansfield Avenue\***  
155 Mansfield Avenue  
Shelby, Ohio 44875-1832  
419.347.3111

\*Includes Automated Teller Machine



# Richland Bank

DIVISION OF THE PARK NATIONAL BANK

## Advisory Board

---

**Mark Breitinger**  
Milark Industries, Inc.

**Michael L. Chambers**  
J&B Acoustical, Inc.

**Timothy J. Lehman**  
Senior Vice President,  
Park National Bank

**Linda H. Smith**  
Ashwood, LLC

**John A. Brown**  
President, Richland Bank

**Benjamin A. Goldman**  
Retired, Superior Building  
Services

**Jeffrey S. Monica**  
McDonald's

**Rick R. Taylor**  
Jay Industries, Inc.

## Officer Listing

---

**President**  
John A. Brown

**Executive Vice President**  
Frank W. Wagner, II

**Senior Vice President**  
Donald R. Harris, Jr.

**Vice Presidents**  
Charla A. Irvin\*  
George T. Keffalas  
Rebecca J. Toomey

**Assistant Vice Presidents**  
Edward A. Brauchler  
Jimmy D. Burton  
John Q. Cleland  
Edward E. Duffey  
Susan A. Fanello  
Ralph J. Kelsay

Barbara A. Miller  
Jeffrey A. Parton  
Sheryl L. Smith  
Linda M. Whited

**Banking Officers**  
Carol L. Davis  
Beth K. Malaska  
Barbara L. Schopp-Miller

**Administrative Officers**  
Lisa S. Clingan  
Clayton J. Herold  
Janis L. Hoover  
Nathan D. Irwin  
Kristie L. Massa  
Christopher A. Nadler\*\*  
Ryan D. Smith  
Deborah A. Sweet

\*Trust Officer

\*\*Assistant Trust Officer



# SECOND NATIONAL BANK

**Offices:** 8    **ATMs:** 7  
**Website:** SecondNational.com  
**Phone:** 937.548.2122 or 855.548.2122  
**President:** John E. Swallow  
**Counties Served:** Darke, Mercer

### Main Office - Greenville

499 South Broadway  
 Post Office Box 130  
 Greenville, Ohio 45331  
 937.548.2122

### Arcanum\*

603 North Main Street  
 Arcanum, Ohio 45304  
 937.692.5191

### Celina\*

800 North Main Street  
 Celina, Ohio 45822  
 419.268.0049

### Fort Recovery\*

117 North Wayne Street  
 Ft. Recovery, Ohio 45846  
 419.375.4101

### Greenville - North\*

1302 Wagner Avenue  
 Greenville, Ohio 45331  
 937.548.5068

### Greenville - Third and Walnut\*

175 East Third Street  
 Greenville, Ohio 45331  
 937.547.2555

### Greenville - Walmart\*

1501 Wagner Avenue  
 Greenville, Ohio 45331  
 937.548.4563

### Versailles\*

101 West Main Street  
 Versailles, Ohio 45380  
 937.526.3287



\*Includes Automated Teller Machine

## Advisory Board

### Steven C. Badgett

Executive Vice President,  
 Second National Bank

### Tyeis Baker-Baumann

Rebsco, Inc.

### Wayne G. Deschambeau

Wayne HealthCare

### Philip M. Fullenkamp

Celina Insurance Group

### Jeffrey E. Hittle

Hittle Buick GMC, Inc.

### Wesley M. Jetter

Ft. Recovery Industries

### Marvin J. Stammen

Retired President,  
 Second National Bank

### John E. Swallow

President,  
 Second National Bank

## Officer Listing

### President

John E. Swallow

### Executive Vice President

Steven C. Badgett

### Vice Presidents

C. Russell Badgett  
 D. Todd Durham\*  
 Joy D. Greer

Thomas J. Lawson

Eric J. McKee  
 Daniel G. Schmitz  
 Brian A. Wagner

### Assistant Vice Presidents

Kimberly A. Baker  
 Gerald O. Beatty  
 Alexa J. Clark  
 Debby J. Folkert

Vicki L. Neff

Shane D. Stonebraker

### Banking Officers

Zachary L. Newbauer  
 Stephen C. Schulte

### Administrative Officers

Antonia T. Baker\*\*  
 Melanie A. Smith

\*Trust Officer

\*\*Assistant Trust Officer



**Offices:** 21    **ATMs:** 28  
**Website:** SecurityNationalBank.com  
**Phone:** 937.324.6800 or 800.836.1557  
**President:** William C. Fralick  
**Counties Served:** Champaign, Clark, Fayette, Greene, Madison, Warren

**Main Office - Springfield\***

40 South Limestone Street  
 Springfield, Ohio 45502  
 937.324.6800

**Enon\***

3680 Marion Drive  
 Enon, Ohio 45323  
 937.864.7318

**Jamestown\***

82 West Washington Street  
 Jamestown, Ohio 45335  
 937.675.7311

**Jeffersonville\*<sup>1</sup>**

2 South Main Street  
 Jeffersonville, Ohio 43128  
 740.426.6384

**Mechanicsburg\***

2 South Main Street  
 Mechanicsburg, Ohio 43044  
 937.834.3387

**Medway\***

130 West Main Street  
 Medway, Ohio 45341  
 937.849.1393

**New Carlisle\***

201 North Main Street  
 New Carlisle, Ohio 45344  
 937.845.3811

**New Carlisle - Park Layne\***

2035 South Dayton-Lakeview Road  
 New Carlisle, Ohio 45344  
 937.849.1331

**North Lewisburg\***

8 West Maple Street  
 North Lewisburg, Ohio 43060  
 937.747.2911

**Plain City**

105 West Main Street  
 Plain City, Ohio 43064  
 614.873.5521

**South Charleston\***

102 South Chillicothe Street  
 South Charleston, Ohio 45368  
 937.462.8368

**Springboro\***

720 Gardner Road  
 Springboro, Ohio 45066  
 937.748.6700

**Springfield - Derr Road - Kroger\***

2989 Derr Road  
 Springfield, Ohio 45503  
 937.342.9411

**Springfield - East Main\***

2730 East Main Street  
 Springfield, Ohio 45503  
 937.325.0351

**Springfield - North Limestone\***

1756 North Limestone Street  
 Springfield, Ohio 45503  
 937.390.3688

**Springfield - Northridge\***

1600 Moorefield Road  
 Springfield, Ohio 45503  
 937.390.3088

**Springfield - Western\***

920 West Main Street  
 Springfield, Ohio 45504  
 937.322.0152

**Urbana\***

1 Monument Square  
 Urbana, Ohio 43078  
 937.653.1226

**Urbana - Scioto Street\***

828 Scioto Street  
 Urbana, Ohio 43078  
 937.653.1290

**Xenia Downtown\***

161 East Main Street  
 Xenia, Ohio 45385  
 937.372.9211

**Xenia Plaza\***

82 North Allison Avenue  
 Xenia, Ohio 45385  
 937.372.9214

**Off-Site ATM Locations**

**Plain City - Shell Gas Station**

440 South Jefferson Avenue

**Springfield**

2051 North Bechtle Avenue

**Springfield - Clark State**

**Community College**  
 570 East Leffel Lane

**Springfield - Regional Medical Center**

222 West North Street

**Springfield - Wittenberg University - Student Center**

738 Woodlawn Avenue

**Springfield - Wittenberg University - HPER Center**

250 Bill Edwards Drive

**Urbana - Champaign County Community Center**

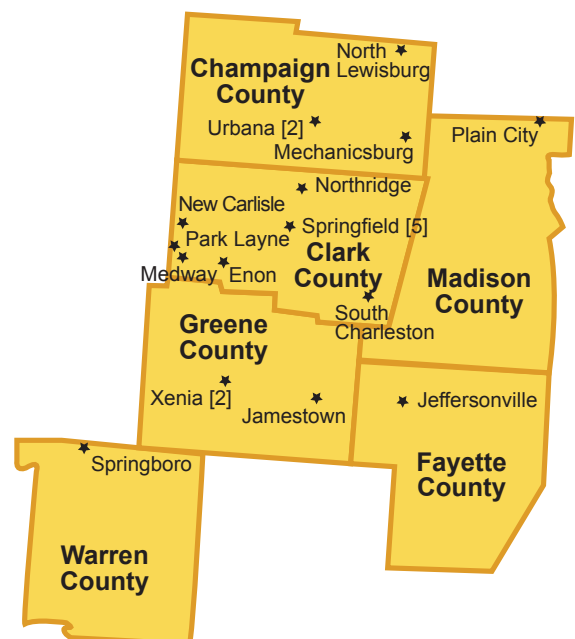
1512 South US Highway 68

**Yellow Springs - Young's Jersey Dairy**

6880 Springfield-Xenia Road

\*Includes Automated Teller Machine

<sup>1</sup>Jeffersonville Office closed 1/22/16







# SECURITY NATIONAL BANK

DIVISION OF THE PARK NATIONAL BANK

## Advisory Board

---

**R. Andrew Bell**

Marsh & McLennan  
Agency

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Colepak, Inc.

**William C. Fralick**

President, Security  
National Bank

**Alicia Sweet Hupp**

Sweet Manufacturing  
Company

**Larry E. Kaffenbarger**

Kaffenbarger Truck  
Equipment Company

**Thomas P. Loftis**

Midland Properties, Inc.

**John McKinnon**

Clark Schaffer Hackett & Co.

**Scott D. Michael**

Michael Farms, Inc.

**Dr. Karen E. Rafinski**

The Registry

**Chester L. Walthall**

Walthall Holding Co. Inc.

**Robert A. Warren**

Hauck Bros., Inc.

## Officer Listing

---

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**Senior Vice Presidents**

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Andrew J. Irick

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Connie P. Craig

Margaret L. Foley\*

Thomas B. Keehner

James A. Kreckman\*

James E. Leathley

Patrick K. Rastatter

David A. Snyder

Michael B. Warnecke

Darlene S. Williams

**Assistant Vice Presidents**

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Sharon K. Boysel

Rachel M. Brewer\*

Margaret A. Chapman

Mary M. Demaree

Catherine L. Hill\*

Andrew S. Peyton

Gary J. Seitz

Victoria L. Sparks

**Banking Officers**

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Benjamin L. Kitchen

Jeffrey S. Williams

**Administrative Officers**

Jacqueline S. Folck

Jason G. Hill

Joanna S. Jaques

Mark D. Klingler

Dawn R. Poole

Rita A. Riley

Mary T. Vallery

\*Trust Officer



**Offices:** 6    **ATMs:** 7  
**Website:** UnitedBankOhio.com  
**Phone:** 419.562.3040 or 800.589.3040  
**President:** Donald R. Stone  
**Counties Served:** Crawford, Marion

**Main Office - Bucyrus\***  
 401 South Sandusky Avenue  
 Post Office Box 568  
 Bucyrus, Ohio 44820  
 419.562.3040

**Caledonia\***  
 140 East Marion Street  
 Caledonia, Ohio 43314  
 419.845.2721

**Crestline\***  
 245 North Seltzer Street  
 Post Office Box 186  
 Crestline, Ohio 44827-0186  
 419.683.1010

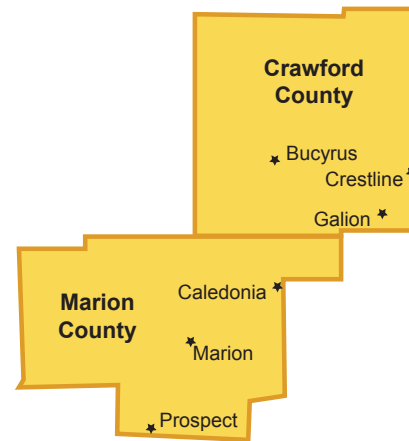
**Galion\***  
 8 Public Square  
 Galion, Ohio 44833  
 419.468.2231

**Marion - Barks Road\***  
 129 Barks Road East  
 Marion, Ohio 43302  
 740.383.3355

**Prospect\***  
 105 North Main Street  
 Prospect, Ohio 43342  
 740.494.2131

**Off-Site ATM Location**  
**Bucyrus - East Pointe Shopping Center**  
 211 Stetzer Road South

\*Includes Automated Teller Machine



## Advisory Board

**Lois J. Fisher**  
 Lois J. Fisher & Assoc.

**Kenneth A. Parr, Jr.**  
 Parr Insurance Agency, Inc.

**Donald R. Stone**  
 President,  
 United Bank, N.A.

**Douglas Wilson**  
 Owner, Doug's Toggery and  
 Realtor, Craig A. Miley Realty  
 & Auction, Ltd.

**Michele M. McElligott**  
 Certified Public Accountant,  
 Avita Health System

**Douglas M. Schilling**  
 Schilling Graphics, Inc.

## Officer Listing

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 Donald R. Stone

**Vice Presidents**  
 Scott E. Bennett  
 John T. Herring

**Banking Officers**  
 David J. Lauthers  
 J. Stephen McDonald

**Administrative Officers**  
 James A. DeSimone  
 Shawneeta D. Shuff

**Senior Vice President**  
 Anne S. Cole

**Assistant Vice President**  
 Jennifer J. Kuns

# Unity National Bank

DIVISION OF THE PARK NATIONAL BANK

**Offices:** 5    **ATMs:** 6  
**Website:** UnityNationalBk.com  
**Phone:** 937.615.1042 or 800.778.3342  
**President:** Brett A. Baumeister  
**County Served:** Miami

## Main Office - Piqua\*

215 North Wayne Street  
Piqua, Ohio 45356  
937.615.1042

## Administrative Office - Piqua

212 North Main Street  
Post Office Box 913  
Piqua, Ohio 45356  
937.773.0752

## Piqua - Sunset\*

1603 Covington Avenue  
Piqua, Ohio 45356  
937.778.4617

## Piqua - Walmart\*

1300 East Ash Street  
Piqua, Ohio 45356  
937.773.9000

## Tipp City\*

1176 West Main Street  
Tipp City, Ohio 45371  
937.667.4888

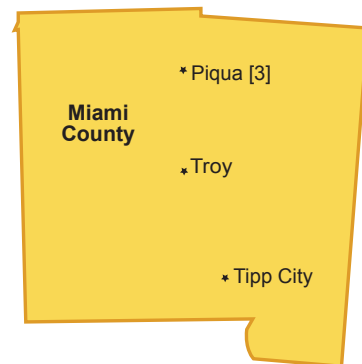
## Troy\*

1314 West Main Street  
Troy, Ohio 45373  
937.339.6626

## Off-Site ATM Location

**Troy - Upper Valley Medical Center**  
3130 North Dixie Highway

\*Includes Automated Teller Machine



## Advisory Board

### Dr. Richard N. Adams

Retired, Representative of  
Ohio General Assembly

### Michael C. Bardo

Retired, Hartzell  
Industries, Inc.

### Rick M. Heinl

Repacorp, Inc.

### Timothy Johnston

Retired, Consultant

### Tamara L. Baird-Ganley

Baird Funeral Home

### Brett A. Baumeister

President, Unity National Bank

### Dr. Douglas D. Hulme

Oakview Veterinary Hospital

### W. Samuel Robinson

Murray, Wells, Wendeln &  
Robinson CPAs, Inc.

## Officer Listing

### President

Brett A. Baumeister

### Assistant Vice Presidents

Dean F. Brewer  
Kyle M. Cooper  
Douglas R. Eakin

### Banking Officers

Mary E. Clevenger  
Kenneth S. Magoteaux

### Administrative Officers

Vicki L. Burke\*\*  
Angela L. Schultz  
Kathleen M. Sherman

### Vice Presidents

G. Dwayne Cooper  
Nathan E. Counts  
Lisa L. Feeser  
Scott E. Rasor

\*\*Assistant Trust Officer

# GUARDIAN

## FINANCE COMPANY

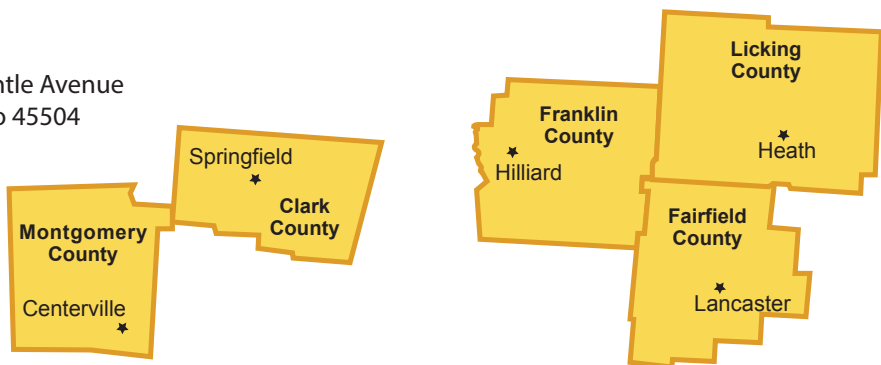
**Home Office - Hilliard**  
 3812 Fishinger Boulevard  
 Hilliard, Ohio 43026  
 877.277.0345

**Lancaster**  
 137 West Main Street  
 Lancaster, Ohio 43130  
 740.654.6959

**Centerville**  
 687 Lyons Road  
 Centerville, Ohio 45459  
 937.434.2773

**Springfield**  
 1017 North Bechtel Avenue  
 Springfield, Ohio 45504  
 937.323.1011

**Heath**  
 619 Hebron Road  
 Heath, Ohio 43056  
 740.788.8766



### Officer Listing

**President and CEO**  
 Matthew R. Marsh

**Assistant Vice Presidents**  
 Patrick A. Borges  
 April D. Storie

**Banking Officer**  
 Mary E. Parsell

**Administrative Officers**  
 Charles L. Harris  
 Valerie J. Morgan  
 Misty A. Tipple



## Scope Aircraft Finance

**Columbus**  
 140 East Town Street, Suite 1400  
 Columbus, Ohio 43215  
 614.221.5773



### Officer Listing

**President**  
 Robert N. Kent, Jr.

**Executive Vice President**  
 Charles W. Sauter

**Assistant Vice President**  
 Pamela J. Cooksey

**Banking Officers**  
 Michael J. Smith  
 Linda M. Staubach

Management's discussion and analysis addresses the financial condition and results of operations for Park National Corporation and our subsidiaries (unless the context otherwise requires, collectively, "Park" or the "Corporation"). This discussion should be read in conjunction with the consolidated financial statements and related notes and the five-year summary of selected financial data. Management's discussion and analysis contains forward-looking statements that are provided to assist in the understanding of anticipated future financial performance. Forward-looking statements provide current expectations or forecasts of future events and are not guarantees of future performance. The forward-looking statements are based on management's expectations and are subject to a number of risks and uncertainties. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements. Risks and uncertainties that could cause actual results to differ materially include, without limitation: Park's ability to execute our business plan successfully and within the expected timeframe; general economic and financial market conditions, specifically in the real estate markets and the credit markets, either nationally or in the states in which Park and our subsidiaries do business, may experience a slowing or reversal of the recent economic expansion in addition to continuing residual effects of recessionary conditions and an uneven spread of positive impacts of recovery, on the economy and our counterparties, including adverse impacts on the demand for loan, deposit and other financial services, delinquencies, defaults and counterparties' ability to meet credit and other obligations; changes in interest rates and prices may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our consolidated balance sheet as well as reduce interest margins; changes in consumer spending, borrowing and saving habits, whether due to changing business and economic conditions, legislative and regulatory initiatives or other factors; changes in unemployment; changes in customers', suppliers' and other counterparties' performance and creditworthiness; asset/liability repricing risks and liquidity risks; our liquidity requirements could be adversely affected by changes to regulations governing bank and bank holding company capital and liquidity standards as well as by changes in our assets and liabilities; competitive factors among financial services organizations could increase significantly, including product and pricing pressures, changes to third-party relationships and our ability to attract, develop and retain qualified bank professionals; clients could pursue alternatives to bank deposits, causing us to lose a relatively inexpensive source of funding; the nature, timing and effect of changes in banking regulations or other regulatory or legislative requirements affecting the respective businesses of Park and our subsidiaries, including major reform of the regulatory oversight structure of the financial services industry and changes in laws and regulations concerning taxes, pensions, bankruptcy, consumer protection, accounting, banking, securities and other aspects of the financial services industry, specifically the reforms provided in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), as well as regulations already adopted or which may be adopted in the future by the relevant regulatory agencies, including the Consumer Financial Protection Bureau, to implement the Dodd-Frank Act's provisions, the Budget Control Act of 2011, the American Taxpayer Relief Act of 2012 and the Basel III regulatory capital reforms; the effect of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board, the Securities and Exchange Commission (the "SEC"), the Public Company Accounting Oversight Board and other regulatory agencies, and the accuracy of our assumptions and estimates used to prepare our financial statements; the effect of trade, monetary, fiscal and other governmental policies of the U.S. federal government, including money supply and interest rate policies of the Federal Reserve; disruption in the liquidity and other functioning of U.S. financial markets; the impact on financial markets and the economy of any changes in the credit ratings of the U.S. Treasury obligations and other U.S. government-backed debt, as well as issues surrounding the levels of U.S., European and Asian government debt and concerns regarding the creditworthiness of certain sovereign governments, supranationals and financial

institutions in Europe and Asia; unfavorable resolution of legal proceedings or other claims and regulatory and other governmental examinations or other inquiries; the adequacy of our risk management program; the ability to secure confidential information and deliver products and services through the use of computer systems and telecommunications networks; a failure in or breach of our operational or security systems or infrastructure, or those of our third-party vendors and other service providers, including as a result of cyber attacks; demand for loans in the respective market areas served by Park and our subsidiaries; and other risk factors relating to the banking industry as detailed from time to time in Park's reports filed with the SEC including those described in "Item 1A. Risk Factors" of Part I of Park's Annual Report on Form 10-K for the fiscal year ended December 31, 2015. Park does not undertake, and specifically disclaims any obligation, to publicly release the results of any revisions that may be made to update any forward-looking statement to reflect the events or circumstances after the date on which the forward-looking statement was made, or reflect the occurrence of unanticipated events, except to the extent required by law.

## OVERVIEW

### Financial Results by Segment

The table below reflects the net income (loss) by segment for the fiscal years ended December 31, 2015, 2014, and 2013. Park's segments include The Park National Bank ("PNB"), Guardian Financial Services Company ("GFSC"), SE Property Holdings, LLC ("SEPH") and all other which primarily consists of Park as the "Parent Company."

**Table 1 – Net Income (Loss) by Segment**

(In thousands)	2015	2014	2013
PNB	\$84,345	\$82,907	\$75,236
GFSC	1,423	1,175	2,888
Parent Company	(4,549)	(5,050)	(1,397)
<b>Ongoing operations</b>	<b>\$81,219</b>	<b>\$79,032</b>	<b>\$76,727</b>
SEPH	(207)	4,925	142
<b>Total Park</b>	<b>\$81,012</b>	<b>\$83,957</b>	<b>\$76,869</b>

The category "Parent Company" above excludes the results for SEPH, an entity which is winding down commensurate with the disposition of its problem assets. Management considers the "Ongoing operations" results, which exclude the results of SEPH, to reflect the business of Park and our subsidiaries going forward. The discussion below provides some additional information regarding the segments that make up the "Ongoing operations", followed by additional information regarding SEPH.

### The Park National Bank (PNB)

The table below reflects PNB's net income for the fiscal years ended December 31, 2015, 2014 and 2013.

**Table 2 – PNB Summary Income Statement**

(In thousands)	2015	2014	2013
Net interest income	\$220,879	\$218,641	\$210,781
Provision for loan losses	7,665	3,517	14,039
Other income	75,188	69,384	70,841
Other expense	167,476	163,641	158,651
<b>Income before income taxes</b>	<b>\$120,926</b>	<b>\$120,867</b>	<b>\$108,932</b>
Federal income taxes	36,581	37,960	33,696
<b>Net income</b>	<b>\$ 84,345</b>	<b>\$ 82,907</b>	<b>\$ 75,236</b>

Net interest income of \$220.9 million for the fiscal year ended December 31, 2015 represented a \$2.3 million or 1.0% increase, compared to \$218.6 million for the fiscal year ended December 31, 2014. The increase was primarily due to a \$206 million increase in average loans, offset by a 13 basis point decline in the yield on loans.

The provision for loan losses of \$7.7 million for the fiscal year ended December 31, 2015 represented an increase of \$4.2 million, compared to \$3.5 million for the fiscal year ended December 31, 2014. The increase reflected the increase in loan balances as well as a small increase in specific reserves. Refer to the “CREDIT EXPERIENCE: Provision for (Recovery of) Loan Losses” section for additional details regarding the level of the provision for loan losses recognized in each period presented.

Other income of \$75.2 million for the fiscal year ended December 31, 2015 represented a \$5.8 million or 8.4% increase, compared to \$69.4 million for the fiscal year ended December 31, 2014. The \$5.8 million increase was primarily related to income of \$1.3 million related to proceeds from the death benefits paid from bank owned life insurance policies, a \$992,000 increase in check card income, a \$2.0 million increase in other service income primarily related to mortgage loan originations, and a \$1.0 million increase in income from fiduciary activities.

Other expense of \$167.5 million for the fiscal year ended December 31, 2015 represented an increase of \$3.9 million or 2.3%, compared to \$163.6 million for the fiscal year ended December 31, 2014. The \$3.9 million increase was primarily related to an increase of \$4.7 million related to salaries expense as well as a contract termination fee and a borrowing prepayment penalty that together resulted in aggregate additional expense of \$1.1 million, offset by a \$1.5 million decrease in contributions and a \$964,000 decrease in fees and services.

PNB results for the fiscal years ended December 31, 2015, 2014, and 2013 included income and expense related to participations in legacy Vision Bank (“Vision”) assets. The impact of these participations on particular items within PNB’s income and expense is detailed in the table below:

**Table 3 – PNB Adjusted for Vision Participations**

(In thousands)	2015			2014			2013		
	PNB as Reported	Adjustments <sup>(1)</sup>	PNB as Adjusted	PNB as Reported	Adjustments <sup>(1)</sup>	PNB as Adjusted	PNB as Reported	Adjustments <sup>(1)</sup>	PNB as Adjusted
Net interest income	\$220,879	\$ 241	\$220,638	\$218,641	\$ 309	\$218,332	\$210,781	\$ 171	\$210,610
Provision for (recovery of) loan losses	7,665	\$(1,453)	9,118	3,517	(6,198)	9,715	14,039	(584)	14,623
Other income	75,188	1,225	73,963	69,384	1,256	68,128	70,841	155	70,686
Other expense	167,476	700	166,776	163,641	2,032	161,609	158,651	1,600	157,051
Income before income taxes	\$120,926	\$ 2,219	\$118,707	\$120,867	\$ 5,731	\$115,136	\$108,932	\$( 690)	\$109,622
Federal income tax expense (benefit)	36,581	671	35,910	37,960	1,800	36,160	33,696	(213)	33,909
Net income (loss)	\$ 84,345	\$ 1,548	\$ 82,797	\$ 82,907	\$ 3,931	\$ 78,976	\$ 75,236	\$( 477)	\$ 75,713

(1) Adjustments consist of the impact on the particular items reported in PNB’s income statement of PNB participations in legacy Vision assets.

The impact of Vision Bank participations includes: interest income, net recoveries from loans previously charged off, net gains on the sale of OREO (included in “other income”), other OREO income and gains on the sale of loans and other expenses.

The table below provides certain balance sheet information and financial ratios for PNB as of December 31, 2015 and 2014.

**Table 4 – PNB Balance Sheet Information**

(In thousands)	December 31, 2015	December 31, 2014	% Change from 12/31/14
Loans	\$5,029,072	\$4,781,761	5.17%
Allowance for loan losses	54,453	52,000	4.72%
Net loans	4,974,619	4,729,761	5.18%
Investment securities	1,641,539	1,498,444	9.55%
Total assets	7,229,764	6,910,386	4.62%
Average assets <sup>(1)</sup>	7,219,898	6,790,615	6.32%
Return on average assets	1.17%	1.22%	(4.10)%

(1) Average assets for the fiscal years ended December 31, 2015 and 2014, respectively.

The PNB loan portfolio increased during the 2015 year. Loans outstanding at December 31, 2015 were \$5.03 billion, compared to \$4.78 billion at December 31, 2014, an increase of \$247 million or 5.2%. PNB experienced growth across all loan categories: mortgage loan growth of \$27 million (2.2%); commercial loan growth of \$143 million (5.9%); and consumer loan growth of \$77 million (6.9%).

PNB’s allowance for loan losses increased by \$2.5 million, or 4.72%, to \$54.5 million at December 31, 2015, compared to \$52.0 million at December 31, 2014. Net charge-offs were \$5.2 million, or 0.11% of total average loans, for the year ended December 31, 2015. Refer to the “CREDIT EXPERIENCE: Provision for (Recovery of) Loan Losses” section for additional information regarding PNB’s loan portfolio and the level of provision for loan losses recognized in each period presented.

PNB’s return on average assets decreased by 5 basis points to 1.17% for the fiscal year ended December 31, 2015, compared to 1.22% for the fiscal year ended December 31, 2014. This decrease was primarily due to an increase in the average balance of Federal Funds sold which yielded a lower rate of return as well as a decrease in the weighted average interest rate on loans. PNB had a \$138.1 million, or 67.4%, increase in average Fed Funds Sold which had an average balance of \$343.0 million and yielded 0.26% for the fiscal year ended December 31, 2015, and had an average balance of \$204.9 million and yielded 0.25% for the fiscal year ended December 31, 2014. Additionally, the yield on loans decreased from 4.67% for the fiscal year ended December 31, 2014, to 4.54% for the fiscal year ended December 31, 2015.

### Guardian Financial Services Company (GFSC)

The table below reflects GFSC’s net income for the fiscal years ended December 31, 2015, 2014, and 2013.

**Table 5 – GFSC Summary Income Statement**

(In thousands)	2015	2014	2013
Net interest income	\$6,588	\$7,457	\$8,741
Provision for loan losses	1,415	1,544	1,175
Other income (loss)	2	(1)	11
Other expense	2,984	4,103	3,133
Income before income taxes	\$2,191	\$1,809	\$4,444
Federal income taxes	768	634	1,556
Net income	\$1,423	\$1,175	\$2,888

The table below provides certain balance sheet information and financial ratios for GFSC as of December 31, 2015 and 2014.

**Table 6 – GFSC Balance Sheet Information**

(In thousands)	December 31, 2015	December 31, 2014	% Change from 12/31/14
Loans	\$35,469	\$40,645	(12.73)%
Allowance for loan losses	2,041	2,352	(13.22)%
Net loans	33,428	38,293	(12.70)%
Total assets	35,793	40,308	(11.20)%
Average assets <sup>(1)</sup>	37,675	43,038	(12.46)%
Return on average assets	3.78%	2.73%	38.46%

(1) Average assets for the fiscal years ended December 31, 2015 and 2014, respectively.

### Park Parent Company

The table below reflects the Park Parent Company net loss for the fiscal years ended December 31, 2015, 2014, and 2013.

**Table 7 – Park Parent Company Income Statement**

(In thousands)	2015	2014	2013
Net interest income (expense)	\$ 239	\$(2,012)	\$ 2,828
Provision for loan losses	—	—	—
Other income	513	175	469
Other expense	9,972	8,000	7,520
<b>Loss before income tax benefit</b>	<b>\$(9,220)</b>	<b>\$(9,837)</b>	<b>\$(4,223)</b>
Federal income tax benefit	(4,671)	(4,787)	(2,826)
<b>Net loss</b>	<b>\$(4,549)</b>	<b>\$(5,050)</b>	<b>\$(1,397)</b>

The net interest income (expense) for Park's parent company included interest income on loans to SEPH and on subordinated debt investments in PNB, which were eliminated in the consolidated Park National Corporation totals. Additionally, net interest income (expense) included interest expense related to the \$30.00 million of subordinated notes issued by Park to accredited investors on April 20, 2012. Results for the fiscal years ended December 31, 2014 and 2013 included the items previously discussed and interest expense related to the \$35.25 million of subordinated notes issued by Park to accredited investors on December 23, 2009. Park paid off the \$35.25 million outstanding principal amount of the 10% Subordinated Notes due December 23, 2019, plus accrued interest, on December 24, 2014, the earliest redemption date allowable under the related note purchase agreement dated December 23, 2009.

Other expense of \$10.0 million for the fiscal year ended December 31, 2015 represented a \$2.0 million or 24.7% increase, compared to \$8.0 million for the fiscal year ended December 31, 2014. The \$2.0 million increase was primarily related to an increase of \$708,000 related to benefits expense, an increase of \$522,000 related to state taxes and a \$346,000 impairment charge related to a capital investment.

### SE Property Holdings, LLC ("SEPH")

The table below reflects SEPH's net income (loss) for the fiscal years ended December 31, 2015, 2014, and 2013. SEPH holds the remaining assets and liabilities retained by Vision subsequent to the sale of the Vision business on February 16, 2012. Prior to holding the remaining Vision assets, SEPH held OREO assets that were transferred from Vision to SEPH. This segment represents a run-off portfolio of the legacy Vision assets.

**Table 8 – SEPH Summary Income Statement**

(In thousands)	2015	2014	2013
Net interest (expense) income	\$ (74)	\$ 958	\$ (1,325)
Recovery of loan losses	(4,090)	(12,394)	(11,799)
Other income	1,848	5,991	1,956
Other expense	6,182	11,766	12,211
<b>(Loss) income before income taxes</b>	<b>\$ (318)</b>	<b>\$ 7,577</b>	<b>\$ 219</b>
Federal income tax (benefit) expense	(111)	2,652	77
<b>Net (loss) income</b>	<b>\$ (207)</b>	<b>\$ 4,925</b>	<b>\$ 142</b>

SEPH's financial results for the fiscal year ended December 31, 2015 included net recoveries of \$4.1 million. The net recoveries during 2015 consisted of charge-offs of \$127,000, offset by recoveries of \$4.2 million from loans previously charged off. Other income for the fiscal year ended December 31, 2015 at SEPH of \$1.8 million was largely related to net gains on the sale of loans of \$722,000, net gains on sale of OREO and other OREO income of \$1.2 million, and non-yield loan fee income of \$301,000, offset by OREO devaluations of \$352,000. The \$5.6 million decline in other expense for the fiscal year ended December 31, 2015 compared to the same period of 2014 was primarily the result of declines in: legal fees of \$4.1 million; management and consulting fees of \$971,000; and other OREO expense of \$190,000, offset by a \$814,000 increase in expense related to reserves established for potential mortgage loan repurchases.

Legacy Vision assets at SEPH totaled \$26.3 million as of December 31, 2015. In addition to these SEPH assets, PNB participations in legacy Vision assets totaled \$9.8 million at December 31, 2015.

### Park National Corporation

The table below reflects the Park's net income for the fiscal years ended December 31, 2015, 2014, and 2013.

**Table 9 – Park Summary Income Statement**

(In thousands)	2015	2014	2013
Net interest income	\$227,632	\$225,044	\$221,025
Provision for (recovery of) loan losses	4,990	(7,333)	3,415
Other income	77,551	75,549	73,277
Other expense	186,614	187,510	181,515
<b>Income before income taxes</b>	<b>\$113,579</b>	<b>\$120,416</b>	<b>\$109,372</b>
Federal income taxes	32,567	36,459	32,503
<b>Net income</b>	<b>\$ 81,012</b>	<b>\$ 83,957</b>	<b>\$ 76,869</b>

### DIVIDENDS ON COMMON SHARES

Cash dividends declared on Park's common shares were \$3.76 in 2015, 2014 and 2013. The quarterly cash dividend on Park's common shares was \$0.94 per share for each quarter of 2015, 2014 and 2013.

### CRITICAL ACCOUNTING POLICIES

The significant accounting policies used in the development and presentation of Park's consolidated financial statements are listed in Note 1 of the Notes to Consolidated Financial Statements. The accounting and reporting policies of Park conform with U.S. generally accepted accounting principles ("GAAP") and general practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

**Allowance for Loan and Lease Losses ("ALLL"):** The determination of the ALLL involves a higher degree of judgment and complexity than Park's other significant accounting policies. The ALLL is calculated with the objective of maintaining a reserve level believed by management to be sufficient to absorb probable, incurred credit losses in the loan portfolio. Management's determination of the adequacy of the ALLL is based on periodic evaluations of the loan portfolio and of current economic conditions. However, this evaluation is inherently subjective as it requires material estimates, including expected default probabilities, the loss given default, the amounts and timing of expected future cash flows on impaired loans, and estimated losses based on historical loss experience and current economic conditions. All of these factors may be susceptible to significant change. To the extent that actual results differ from management estimates, additional loan loss provisions may be required that would adversely impact earnings for future periods. Refer to the "CREDIT EXPERIENCE – Provision for (Recovery of) Loan Losses" section for additional discussion.

**Other Real Estate Owned ("OREO"):** OREO, property acquired through foreclosure, is recorded at estimated fair value less anticipated selling costs (net realizable value). If the net realizable value is below the carrying value of the loan on the date of transfer of the OREO, the difference is charged off against the ALLL. Subsequent declines in value (OREO devaluations) are reported as adjustments to the carrying amount of OREO and are expensed within other income. Gains or losses not previously recognized, resulting from the sale of OREO, are recognized within other income on the date of sale. At December 31, 2015, OREO totaled \$18.7 million, a decrease of 17.3%, compared to \$22.6 million at December 31, 2014.

**Fair Value:** In accordance with GAAP, management utilizes the fair value hierarchy, which has the objective of maximizing the use of observable market inputs. The accounting guidance also requires disclosures regarding the inputs used to calculate fair value. These inputs are classified as Level 1, 2, and 3. Level 3 inputs are those with significant unobservable inputs that reflect a company's own assumptions about the market for a particular instrument. Some of the inputs could be based on internal models and/or cash flow analyses. The large majority of Park's financial assets valued using Level 2 inputs consist of available-for-sale ("AFS") securities. The fair value of these AFS securities is obtained largely by the use of matrix pricing, which is a mathematical technique widely used in the financial services industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.

**Goodwill:** The accounting for goodwill also involves a higher degree of judgment than most other significant accounting policies. GAAP establishes standards for the impairment assessment of goodwill. Goodwill arising from business combinations represents the value attributable to unidentifiable intangible assets in the business acquired. Park's goodwill relates to the value inherent in the banking industry and that value is dependent upon the ability of PNB, Park's bank subsidiary, to provide quality, cost-effective banking services in a competitive marketplace. The goodwill value is supported by revenue that is in part driven by the volume of business transacted. A decrease in earnings resulting from a decline in the customer base, the inability to deliver cost-effective services over sustained periods or significant credit problems can lead to impairment of goodwill that could adversely impact earnings in future periods. Under GAAP, goodwill is no longer amortized but is subject to an annual evaluation for impairment, or more frequently if events or changes in circumstances indicate that the asset might be impaired by assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing these events or circumstances, it is concluded that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the performance of the second step of the impairment test is required. If the carrying amount of the goodwill exceeds the fair value, an impairment charge must be recorded in an amount equal to the excess. At December 31, 2015, on a consolidated basis, Park had \$72.3 million of goodwill, all of which is recorded at PNB.

**Pension Plan:** The determination of pension plan obligations and related expenses requires the use of assumptions to estimate the amount of benefits that employees earn while working, as well as the present value of those benefits. Annual pension expense is principally based on four components: (1) the value of benefits earned by employees for working during the year (service cost), (2) the increase in the liability due to the passage of time (interest cost), and (3) other gains and losses, reduced by (4) the expected return on plan assets for our pension plan.

Significant assumptions used to measure our annual pension expense include:

- the interest rate used to determine the present value of liabilities (discount rate);
- certain employee-related factors, such as turnover, retirement age and mortality;
- the expected return on assets in our funded plans; and
- the rate of salary increases

Our assumptions reflect our historical experience and management's best judgment regarding future expectations. Due to the significant management judgment involved, our assumptions could have a material impact on the measurement of our pension plan expense and obligation.

## ABOUT OUR BUSINESS

Through our Ohio-based banking divisions, Park is engaged in the commercial banking and trust business, generally in small to medium population Ohio communities. Management believes there are a significant number of consumers and businesses which seek long-term relationships with community-based financial institutions of quality and strength. While not engaging in activities such as foreign lending, nationally syndicated loans or investment banking, Park attempts to meet the needs of our customers for commercial, real estate and consumer loans, and investment, fiduciary and deposit services.

Park's subsidiaries compete for deposits and loans with other banks, savings associations, credit unions and other types of financial institutions. At December 31, 2015, Park operated 122 financial service offices (including those of PNB, Scope Leasing, Inc. ("Scope Aircraft Finance"), and GFSC and a network of 141 automated teller machines in 28 Ohio counties. Park also operated one office for Park Title Agency LLC and one office for SEPH, each located in Newark, Ohio.

A summary of average loans and average deposits for Park's subsidiaries, including its bank subsidiary, PNB, and PNB's divisions and subsidiary Scope Aircraft Finance for 2015, 2014 and 2013 is shown in Table 10. See Note 27 of the Notes to Consolidated Financial Statements for additional financial information for the Corporation's operating segments. Please note that the financial statements for the divisions of PNB are not prepared on a separate basis and, therefore, net income is not included in the summary financial data below.

**Table 10 – Park Affiliate Financial Data**

(In thousands)	2015		2014		2013	
	Average Loans	Average Deposits	Average Loans	Average Deposits	Average Loans	Average Deposits
Park National Bank:						
Park National Bank Division	\$1,465,586	\$1,473,906	\$1,383,686	\$1,426,645	\$1,348,466	\$1,355,805
Security National Bank Division	462,681	802,061	454,680	774,716	432,259	780,525
First-Knox National Bank Division	591,948	632,810	571,519	563,275	540,452	538,142
Century National Bank Division	655,682	556,543	638,314	493,449	618,144	482,002
Richland Bank Division	240,622	483,673	242,788	451,304	240,692	444,364
Fairfield National Bank Division	260,281	406,940	255,280	401,255	251,567	398,260
Second National Bank Division	374,385	337,181	355,379	317,208	323,880	308,970
Park National SW & N KY Bank Division	384,788	210,066	363,735	208,784	324,386	216,134
United Bank, N.A. Division	103,301	198,162	92,427	190,082	85,761	193,823
Unity National Bank Division	180,034	172,658	174,950	162,074	160,123	153,814
Farmers Bank Division	123,875	96,782	108,397	89,328	100,189	84,802
Scope Aircraft Finance	198,475	465	178,194	8	182,794	7
SEPH/Vision Bank	17,910	—	31,836	—	47,625	18
GFSC	37,686	5,595	43,165	6,610	49,687	8,172
Parent Company, other	(187,675)	89,982	(177,053)	(67,185)	(191,244)	(105,098)
<b>Consolidated Totals</b>	<b>\$4,909,579</b>	<b>\$5,466,824</b>	<b>\$4,717,297</b>	<b>\$5,017,553</b>	<b>\$4,514,781</b>	<b>\$4,859,740</b>

## SOURCE OF FUNDS

**Deposits:** Park's major source of funds is deposits from individuals, businesses and local government entities. These deposits consist of non-interest bearing and interest bearing deposits.



Average total deposits were \$5,467 million in 2015, compared to \$5,018 million in 2014, and \$4,860 million in 2013. Table 11 provides a summary of deposit balances as of December 31, 2015 and 2014, along with the change over the past year.

**Table 11 – Year-End Deposits**

December 31, (In thousands)	2015	2014	Change
Non-interest bearing checking	<b>\$1,404,032</b>	\$1,269,296	\$134,736
Interest bearing transaction accounts	<b>1,107,200</b>	1,122,079	(14,879)
Savings	<b>1,544,708</b>	1,325,445	219,263
All other time deposits	<b>1,290,412</b>	1,409,911	(119,499)
Other	<b>1,290</b>	1,269	21
<b>Total</b>	<b>\$5,347,642</b>	\$5,128,000	\$219,642

The average interest rate paid on interest bearing deposits was 0.30% in 2015, compared to 0.29% in 2014, and 0.35% in 2013. The average cost of interest bearing deposits for each quarter of 2015 was 0.29% for the fourth quarter, 0.29% for the third quarter, 0.30% for the second quarter and 0.31% for the first quarter.

Maturities of time deposits over \$100,000 as of December 31, 2015 and 2014 were:

**Table 12 – Maturities of Time Deposits**

December 31 (In thousands)	Over \$100,000	
	2015	2014
3 months or less	\$197,871	\$210,386
Over 3 months through 6 months	96,132	93,168
Over 6 months through 12 months	117,249	132,344
Over 12 months	97,242	122,709
<b>Total</b>	<b>\$508,494</b>	<b>\$558,607</b>

**Short-Term Borrowings:** Short-term borrowings consist of securities sold under agreements to repurchase, Federal Home Loan Bank advances, Federal Funds purchased and other borrowings. These funds are used to manage the Corporation's liquidity needs and interest rate sensitivity risk. The average rate paid on short-term borrowings generally moves closely with changes in market interest rates for short-term investments. The average rate paid on short-term borrowings was 0.18% in 2015, compared to 0.20% in 2014, and 0.22% in 2013. The year-end balance for short-term borrowings was \$394 million at December 31, 2015, compared to \$277 million at December 31, 2014, and \$242 million at December 31, 2013.

**Long-Term Debt:** Long-term debt primarily consists of borrowings from the Federal Home Loan Bank and repurchase agreements with investment banking firms. The average balance of long-term debt and the average cost of long-term debt include the subordinated notes discussed in the following section. In 2015, average long-term debt was \$793 million, compared to \$868 million in 2014, and \$871 million in 2013. The average interest rate paid on long-term debt was 3.10% for 2015, compared to 3.29% for 2014, and 3.26% for 2013. Average total debt (long-term and short-term) was \$1,052 million in 2015, compared to \$1,131 million in 2014, and \$1,124 million in 2013. Average total debt decreased by \$79 million or 7.0% in 2015 compared to 2014, and increased by \$7 million or 0.6% in 2014 compared to 2013. Average long-term debt was 75% of average total debt in 2015, compared to 77% of average total debt in 2014 and 2013.

**Subordinated Notes:** Park assumed, with the 2007 acquisition of Vision's parent holding company, \$15.5 million of floating rate junior subordinated notes. The \$15.5 million of junior subordinated notes were purchased by Vision Bancshares Trust I ("Trust I") following the issuance of Trust I's \$15.0 million of floating rate preferred securities. The interest rate on these junior subordinated notes adjusts every quarter at 148 basis points above the three-month LIBOR interest rate. The maturity date for the junior subordinated notes is December 30, 2035 and the junior subordinated notes may be prepaid after December 30, 2010. These junior subordinated notes qualify as Tier 1 capital under current Federal Reserve Board guidelines.

On December 23, 2009, Park issued an aggregate principal amount of \$35.25 million of subordinated notes to 38 purchasers. These subordinated notes had a fixed annual interest rate of 10% with quarterly interest payments. The maturity date of these subordinated notes was December 23, 2019 and the subordinated notes were eligible to be prepaid after December 23, 2014. The subordinated notes qualified as Tier 2 capital under applicable Federal Reserve Board guidelines. Each subordinated note was purchased at a purchase price of 100% of the principal amount by an accredited investor. Park paid in full the \$35.25 million outstanding principal amount, plus accrued interest, on December 24, 2014, the earliest redemption date allowable under the related note purchase agreement.

On April 20, 2012, Park issued an aggregate principal amount of \$30.0 million of subordinated notes to 56 purchasers. These subordinated notes have a fixed annual interest rate of 7% with quarterly interest payments. The maturity date of these subordinated notes is April 20, 2022 and the subordinated notes are eligible to be prepaid after April 20, 2017. The subordinated notes qualify as Tier 2 capital under applicable Federal Reserve Board guidelines. Each subordinated note was purchased at a purchase price of 100% of the principal amount by an accredited investor.

See Note 16 of the Notes to Consolidated Financial Statements for additional information about the subordinated notes.

**Shareholders' Equity:** The ratio of tangible shareholders' equity [shareholders' equity (\$713.4 million) less goodwill (\$72.3 million)] to tangible assets [total assets (\$7,311 million) less goodwill (\$72.3 million)] was 8.86% at December 31, 2015, compared to 9.04% at December 31, 2014, and 8.82% at December 31, 2013.

In accordance with GAAP, Park reflects any unrealized holding gain or loss on AFS securities or change in the funded status of Park's pension plan net of income taxes, as accumulated other comprehensive income (loss) which is part of Park's shareholders' equity.

The unrealized net holding loss, net of income taxes, on AFS securities was \$292,000 at year-end 2015, compared to the unrealized net holding gain, net of income taxes, of \$1.3 million at year-end 2014, and compared to the unrealized net holding loss, net of income taxes, of \$29.8 million at year-end 2013. The unrealized net holding gain at December 31, 2014 was the result of decreases in long-term interest rates during the year.

In accordance with GAAP, Park adjusts accumulated other comprehensive income (loss) to recognize the net actuarial gain or loss reflected in the funding status of Park's pension plan. See Note 18 of the Notes to Consolidated Financial Statements for information on the accounting for Park's pension plan.

Pertaining to the funding status of the pension plan, Park recognized a net comprehensive loss of \$0.5 million in 2015, a net comprehensive loss of \$9.3 million in 2014, and net comprehensive income of \$21.5 million in 2013. The net comprehensive loss in 2015 was due to changes in actuarial assumptions combined with lower investment returns on pension plan assets. The net comprehensive loss in 2014 was due to changes in actuarial assumptions, primarily a decrease in the discount rate from 5.30% at December 31, 2013 to 4.42% at December 31, 2014. The actuarial loss more than offset the positive investment returns with respect to the pension plan's assets in 2014. The net comprehensive income in 2013 was due to positive investment returns in 2013 and changes in actuarial assumptions, primarily an increase in the discount rate from 4.47% at December 31, 2012 to 5.30% at December 31, 2013. At year-end 2015, the balance in accumulated other comprehensive loss pertaining to the pension plan was \$(15.4) million, compared to \$(14.9) million at December 31, 2014, and \$(5.6) million at December 31, 2013.

**INVESTMENT OF FUNDS**

**Loans:** Average loans were \$4,910 million in 2015, compared to \$4,717 million in 2014, and \$4,515 million in 2013. The average yield on loans was 4.66% in 2015, compared to 4.84% in 2014 and 5.02% in 2013. Approximately 49% of Park's loan balances mature or reprice within one year (see Table 35). The yield on average loan balances for each quarter of 2015 was 4.63% for the fourth quarter, 4.65% for the third quarter, and 4.68% for each of the second and first quarters.

At December 31, 2015, loan balances were \$5,068 million, compared to \$4,830 million at year-end 2014, an increase of \$238 million or 4.9%. The loan growth of \$238 million in 2015 was largely due to increases in loans of \$247 million at PNB, offset by declines at GFSC and SEPH.

Table 13 reports year-end loan balances by type of loan for the past five years.

**Table 13 – Loans by Type**

December 31, (In thousands)	2015	2014	2013	2012	2011
Commercial, financial and agricultural	<b>\$ 955,727</b>	\$ 856,535	\$ 825,432	\$ 823,927	\$ 743,797
Construction real estate	<b>173,345</b>	155,804	156,116	165,528	217,546
Residential real estate	<b>1,855,443</b>	1,851,375	1,799,547	1,713,645	1,628,618
Commercial real estate	<b>1,113,603</b>	1,069,637	1,112,273	1,092,164	1,108,574
Consumer	<b>967,111</b>	893,160	723,733	651,930	616,505
Leases	<b>2,856</b>	3,171	3,404	3,128	2,059
<b>Total loans</b>	<b>\$5,068,085</b>	\$4,829,682	\$4,620,505	\$4,450,322	\$4,317,099

Loan growth was experienced across each of the major loan types in 2015.

On a combined basis, year-end commercial, financial and agricultural loans, construction real estate loans and commercial real estate loans increased by \$161 million or 7.7% in 2015 and decreased by \$12 million or 0.6% in 2014. The increase in 2015 was due to increases in commercial, financial and agricultural loans of \$99.2 million, commercial real estate loans of \$44.0 million and an increase of \$17.5 million in construction real estate loans. The decrease in 2014 was primarily due to the fact that the increase in commercial, financial and agricultural loans of \$31.1 million was more than offset by decreases in construction real estate and commercial real estate of \$312,000 and \$42.6 million, respectively.

Consumer loans increased by \$74 million or 8.3% in 2015 and increased by \$169 million or 23.3% in 2014. The increase in consumer loans in each of 2015 and 2014 was primarily due to an increase in automobile lending in Ohio.

The long-term, fixed-rate residential mortgage loans that Park originates are generally sold in the secondary market and Park typically retains servicing on these loans. The balance of sold fixed-rate residential mortgage loans, in which Park has maintained the servicing rights, was \$1,273 million at year-end 2015, compared to \$1,264 million at year-end 2014, and \$1,326 million at year-end 2013.

**Table 14 – Selected Loan Maturity Distribution**

December 31, 2015 (In thousands)	One Year or Less <sup>(1)</sup>	Over One Through Five Years	Over Five Years	Total
Commercial, financial and agricultural	\$ 74,400	\$438,752	\$ 442,575	<b>\$ 955,727</b>
Construction real estate	38,592	38,528	96,225	<b>173,345</b>
Commercial real estate	48,535	106,830	958,238	<b>1,113,603</b>
<b>Total</b>	<b>\$161,527</b>	<b>\$584,110</b>	<b>\$1,497,038</b>	<b>\$2,242,675</b>
Total of these selected loans due after one year with:				
Fixed interest rate		\$312,822	\$ 406,084	<b>\$ 718,906</b>
Floating interest rate		271,288	1,090,954	<b>1,362,242</b>

(1) Nonaccrual loans of \$44.0 million are included within the one year or less classification above.

**Investment Securities:** Park's investment securities portfolio is structured to minimize credit risk, provide liquidity and contribute to earnings. As conditions change over time, Park's overall interest rate risk, liquidity needs and potential return on the investment portfolio will change. Management regularly evaluates the securities in the investment portfolio as circumstances evolve. Circumstances that could result in the sale of a security include: to better manage interest rate risk; to meet liquidity needs; or to improve the overall yield in the investment portfolio.

Park classifies the majority of our securities as AFS (see Note 5 of the Notes to Consolidated Financial Statements). These securities are carried on the books at their estimated fair value with the unrealized holding gain or loss, net of federal taxes, accounted for as accumulated other comprehensive income (loss). The securities that are classified as AFS are free to be sold in future periods in carrying out Park's investment strategies.

Park classifies certain types of U.S. Government sponsored entity collateralized mortgage obligations ("CMOs") that we purchase as held-to-maturity ("HTM"). In addition, starting in 2015, Park began to purchase tax-exempt municipal securities, also classified as HTM. These securities are classified as HTM because they are generally not as liquid as the investment securities that Park classifies as AFS. A classification of HTM means that Park has the positive intent and the ability to hold these securities until maturity. At year-end 2015, Park's HTM securities portfolio was \$149 million, compared to \$141 million at year-end 2014, and \$182 million at year-end 2013. Included in the HTM securities portfolio as of December 31, 2015 are \$48.2 million of tax-exempt municipal securities. All of the CMOs, mortgage-backed securities, and callable notes in Park's investment portfolio were issued by U.S. Government sponsored entities.

Average taxable investment securities were \$1,472 million in 2015, compared to \$1,433 million in 2014, and \$1,377 million in 2013. The average yield on taxable investment securities was 2.45% in 2015, compared to 2.58% in 2014, and 2.66% in 2013. Average tax-exempt investment securities were \$5.9 million in 2015, compared to \$65,000 in 2014, and \$1.0 million in 2013. The average tax-equivalent yield on tax-exempt investment securities was 4.72% in 2015, compared to 6.97% in 2014, and 7.07% in 2013.

Total investment securities (at amortized cost) were \$1,644 million at December 31, 2015, compared to \$1,499 million at December 31, 2014, and \$1,470 million at December 31, 2013. Management purchased investment securities totaling \$506 million in 2015, \$352 million in 2014, and \$583 million in 2013. Proceeds from repayments and maturities of investment securities were \$357 million in 2015, \$140 million in 2014, and \$605 million in 2013.

Proceeds from sales of investment securities were \$3.1 million in 2015. These investment securities had a book value of \$3.1 million and resulted in a gain on sale of \$88,000. Proceeds from sales of investment securities were \$173.1 million in 2014. Of the investment securities sold in 2014, a small portion with a book value of \$187,000 was sold for a gain of \$22,000. The remaining investment securities sold in 2014, with a book value of \$174.1 million, were sold at a loss of \$1.2 million. Proceeds from sales of investment securities were \$75 million in 2013. These securities were sold at book value; thus, there was no gain or loss recognized.

At year-end 2015, 2014, and 2013, the average tax-equivalent yield on the total investment portfolio was 2.28%, 2.47% and 2.53%, respectively. The weighted average remaining maturity of the total investment portfolio was 4.8 years at December 31, 2015, 5.2 years at December 31, 2014, and 6.5 years at December 31, 2013. Obligations of the U.S. Treasury and other U.S. Government sponsored entities and U.S. Government sponsored entities' asset-backed securities were approximately 93.3% of the total investment portfolio at year-end 2015, approximately 96.0% of the total investment portfolio at year-end 2014, and approximately 95.2% of the total investment portfolio at year-end 2013.

# M A N A G E M E N T ' S   D I S C U S S I O N   &   A N A L Y S I S

The average maturity of the investment portfolio would lengthen if long-term interest rates were to increase as principal repayments from mortgage-backed securities and CMOs would decline and callable U.S. Government sponsored entity notes would extend to their maturity dates. At year-end 2015, management estimated that the average maturity of the investment portfolio would lengthen to 5.0 years with a 100 basis point increase in long-term interest rates and to 5.2 years with a 200 basis point increase in long-term interest rates. Likewise, the average maturity of the investment portfolio would shorten if long-term interest rates were to decrease as the principal repayments from mortgage-backed securities and CMOs would increase as borrowers would refinance their mortgage loans and the callable U.S. Government sponsored entity notes would shorten to their call dates. At year-end 2015, management estimated that the average maturity of the investment portfolio would decrease to 2.2 years with a 100 basis point decrease in long-term interest rates and to 1.7 years with a 200 basis point decrease in long-term interest rates.

Table 15 sets forth the carrying value of investment securities, as well as the percentage held within each category at year-end 2015, 2014 and 2013:

**Table 15 – Investment Securities**

December 31, (In thousands)	2015	2014	2013
Obligations of U.S. Treasury and other U.S. Government sponsored entities	\$ 522,063	\$ 538,064	\$ 525,136
Obligations of states and political subdivisions	48,190	—	240
U.S. Government asset-backed securities	1,012,605	901,715	830,292
Federal Home Loan Bank stock	50,086	50,086	59,031
Federal Reserve Bank stock	8,225	8,225	6,876
Equities	2,710	2,698	2,659
<b>Total</b>	<b>\$1,643,879</b>	<b>\$1,500,788</b>	<b>\$1,424,234</b>
<b>Investments by category as a percentage of total investment securities</b>			
Obligations of U.S. Treasury and other U.S. Government sponsored entities	31.8%	35.9%	36.9%
Obligations of states and political subdivisions	2.9%	—%	N.M.
U.S. Government asset-backed securities	61.6%	60.1%	58.3%
Federal Home Loan Bank stock	3.0%	3.3%	4.1%
Federal Reserve Bank stock	0.5%	0.5%	0.5%
Equities	0.2%	0.2%	0.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

N.M. – Not meaningful

**Table 16 – Distribution of Assets, Liabilities and Shareholders' Equity**

December 31, (In thousands)	2015			2014			2013		
	Daily Average	Interest	Average Rate	Daily Average	Interest	Average Rate	Daily Average	Interest	Average Rate
<b>ASSETS</b>									
<b>Interest earning assets:</b>									
Loans <sup>(1) (2)</sup>	\$4,909,579	\$228,746	4.66%	\$4,717,297	\$228,487	4.84%	\$4,514,781	\$226,816	5.02%
Taxable investment securities	1,472,285	36,026	2.45%	1,432,627	36,981	2.58%	1,376,913	36,686	2.66%
Tax-exempt investment securities <sup>(3)</sup>	5,923	279	4.72%	65	5	6.97%	974	69	7.07%
Money market instruments	342,997	888	0.26%	204,874	515	0.25%	272,851	678	0.25%
<b>Total interest earning assets</b>	<b>6,730,784</b>	<b>265,939</b>	<b>3.95%</b>	<b>6,354,863</b>	<b>265,988</b>	<b>4.19%</b>	<b>6,165,519</b>	<b>264,249</b>	<b>4.29%</b>
<b>Non-interest earning assets:</b>									
Allowance for loan losses	(56,947)			(58,917)			(56,860)		
Cash and due from banks	117,286			112,113			110,796		
Premises and equipment, net	58,377			55,407			56,303		
Other assets	456,960			429,836			425,291		
<b>TOTAL</b>	<b>\$7,306,460</b>			<b>\$6,893,302</b>			<b>\$6,701,049</b>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>									
<b>Interest bearing liabilities:</b>									
Transaction accounts	\$1,257,681	\$ 816	0.06%	\$1,291,310	\$ 825	0.06%	\$1,251,305	\$ 927	0.07%
Savings deposits	1,544,316	1,413	0.09%	1,216,750	852	0.07%	1,098,860	846	0.08%
Time deposits	1,353,199	10,125	0.75%	1,312,868	9,323	0.71%	1,392,196	11,235	0.81%
<b>Total interest bearing deposits</b>	<b>4,155,196</b>	<b>12,354</b>	<b>0.30%</b>	<b>3,820,928</b>	<b>11,000</b>	<b>0.29%</b>	<b>3,742,361</b>	<b>13,008</b>	<b>0.35%</b>
Short-term borrowings	258,717	469	0.18%	263,270	517	0.20%	253,123	544	0.22%
Long-term debt <sup>(4)</sup>	793,469	24,619	3.10%	867,615	28,582	3.29%	870,538	28,370	3.26%
<b>Total interest bearing liabilities</b>	<b>5,207,382</b>	<b>37,442</b>	<b>0.72%</b>	<b>4,951,813</b>	<b>40,099</b>	<b>0.81%</b>	<b>4,866,022</b>	<b>41,922</b>	<b>0.86%</b>
<b>Non-interest bearing liabilities:</b>									
Demand deposits	1,311,628			1,196,625			1,117,379		
Other	77,123			64,415			74,039		
<b>Total non-interest bearing liabilities</b>	<b>1,388,751</b>			<b>1,261,040</b>			<b>1,191,418</b>		
Shareholders' equity	710,327			680,449			643,609		
<b>TOTAL</b>	<b>\$7,306,460</b>			<b>\$6,893,302</b>			<b>\$6,701,049</b>		
Tax equivalent net interest income		\$228,497			\$225,889			\$222,327	
Net interest spread			3.23%			3.38%			3.43%
Net yield on interest earning assets (net interest margin)			3.39%			3.55%			3.61%

(1) Loan income includes net loan related fee income and origination costs (expense) of (\$1.0 million) in 2015, \$1.3 million in 2014, and \$1.9 million in 2013. Loan income also includes the effects of taxable equivalent adjustments using a 35% tax rate in 2015, 2014 and 2013. The taxable equivalent adjustment was \$767,000 in 2015, \$843,000 in 2014, and \$1.3 million in 2013.

(2) For the purpose of the computation for loans, nonaccrual loans are included in the daily average loans outstanding.

(3) Interest income on tax-exempt investment securities includes the effects of taxable equivalent adjustments using a 35% tax rate in 2015, 2014 and 2013. The taxable equivalent adjustments were \$98,000 in 2015, \$2,000 in 2014, and \$24,000 in 2013.

(4) Includes subordinated notes.

**ANALYSIS OF EARNINGS**

Park's principal source of earnings is net interest income, the difference between total interest income and total interest expense. Net interest income results from average balances outstanding for interest earning assets and interest bearing liabilities in conjunction with the average rates earned and paid on them. (See Table 16 for three years of history on the average balances of the balance sheet categories as well as the average rates earned on interest earning assets and the average rates paid on interest bearing liabilities.)

The following table displays (for each quarter of 2015) the average balance of interest earning assets, the net interest income and the tax equivalent net interest income and net interest margin.

**Table 17 – Quarterly Net Interest Margin**

(In thousands)	Average Interest Earning Assets	Net Interest Income	Tax Equivalent Net Interest Income	Tax Equivalent Net Interest Margin
First Quarter	\$6,636,498	\$ 55,535	\$ 55,696	3.40%
Second Quarter	6,689,497	56,515	56,685	3.40%
Third Quarter	6,828,647	57,715	57,935	3.37%
Fourth Quarter	6,765,996	57,867	58,181	3.41%
<b>2015</b>	<b>\$6,730,784</b>	<b>\$227,632</b>	<b>\$228,497</b>	<b>3.39%</b>

In the following table, the change in tax equivalent interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

**Table 18 – Volume/Rate Variance Analysis**

(In thousands)	Change from 2014 to 2015			Change from 2013 to 2014		
	Volume	Rate	Total	Volume	Rate	Total
Increase (decrease) in:						
Interest income:						
<b>Total loans</b>	<b>\$ 9,016</b>	<b>\$ (8,757)</b>	<b>\$ 259</b>	\$ 9,961	\$(8,290)	\$1,671
Taxable investments	982	(1,937)	(955)	1,433	(1,138)	295
Tax-exempt investments	276	(2)	274	(63)	(1)	(64)
Money market instruments	352	21	373	(163)	—	(163)
<b>Total interest income</b>	<b>10,626</b>	<b>(10,675)</b>	<b>(49)</b>	11,168	(9,429)	1,739
Interest expense:						
Transaction accounts	\$ (9)	\$ —	\$ (9)	\$ 27	\$ (129)	\$ (102)
Savings accounts	273	289	562	104	(98)	6
Time deposits	283	519	802	(604)	(1,308)	(1,912)
Short-term borrowings	(7)	(41)	(48)	23	(50)	(27)
Long-term debt	(2,365)	(1,599)	(3,964)	(83)	295	212
<b>Total interest expense</b>	<b>(1,825)</b>	<b>(832)</b>	<b>(2,657)</b>	(533)	(1,290)	(1,823)
<b>Net variance</b>	<b>\$12,451</b>	<b>\$ (9,843)</b>	<b>\$ 2,608</b>	\$11,701	\$(8,139)	\$3,562

**Other Income:** Other income was \$77.6 million in 2015, compared to \$75.5 million in 2014, and \$73.3 million in 2013.

The following table displays total other income for Park in 2015, 2014 and 2013.

**Table 19 – Other Income**

Year Ended December 31, (In thousands)	2015	2014	2013
Income from fiduciary activities	\$20,195	\$19,150	\$17,133
Service charges on deposits	14,751	15,423	16,316
Other service income	11,438	10,459	12,913
Checkcard fee income	14,561	13,570	12,955
Bank owned life insurance income	5,783	4,861	5,041
ATM fees	2,428	2,467	2,632
Gain on the sale of OREO, net	1,604	5,503	3,110
OREO devaluations	(1,592)	(2,406)	(3,180)
Gain on the sale of commercial loans held for sale	756	1,867	—
Gain (loss) on sale of investment securities	88	(1,158)	—
Miscellaneous	7,539	5,813	6,357
<b>Total other income</b>	<b>\$77,551</b>	<b>\$75,549</b>	<b>\$73,277</b>

The following table breaks out the change in total other income for the year ended December 31, 2015 compared to the year ended December 31, 2014, and for the year ended December 31, 2014 compared to the year ended December 31, 2013 between Park's Ohio-based operations and SEPH.

**Table 20 – Other Income Breakout**

(In thousands)	Change from 2014 to 2015			Change from 2013 to 2014		
	Ohio-based Operations	SEPH	Total	Ohio-based Operations	SEPH	Total
Income from fiduciary activities	\$ 1,045	\$ —	\$ 1,045	\$ 2,017	\$ —	\$ 2,017
Service charges on deposits	(672)	—	(672)	(893)	—	(893)
Other service income	2,011	(1,032)	979	(3,726)	1,272	(2,454)
Checkcard fee income	991	—	991	615	—	615
Bank owned life insurance income	922	—	922	(180)	—	(180)
ATM fees	(39)	—	(39)	(165)	—	(165)
Gain on the sale of OREO, net	(1,220)	(2,679)	(3,899)	1,642	751	2,393
OREO devaluations	335	479	814	1,011	(237)	774
Gain on sale of commercial loans held for sale	363	(1,474)	(1,111)	(329)	2,196	1,867
Gain (loss) on sale of investment securities	1,246	—	1,246	(1,158)	—	(1,158)
Miscellaneous	1,163	563	1,726	(597)	53	(544)
<b>Total other income</b>	<b>\$ 6,145</b>	<b>\$(4,143)</b>	<b>\$ 2,002</b>	<b>\$(1,763)</b>	<b>\$4,035</b>	<b>\$ 2,272</b>

Income from fiduciary activities increased by \$1.0 million in 2015, or 5.5%, to \$20.2 million in 2015, compared to \$19.2 million in 2014. The \$19.2 million in 2014 was an increase of \$2.0 million, or 11.8%, compared to \$17.1 million in 2013. The increases in fiduciary fee income in 2015 and 2014 were primarily due to improvements in the equity markets and also due to an increase in the total account balances serviced by PNB's Trust Department. PNB charges fiduciary fees largely based on the market value of the assets being managed. The average market value of the trust assets managed by PNB was \$4.38 billion in 2015, compared to \$4.26 billion in 2014, and \$3.86 billion in 2013.

Service charges on deposit accounts decreased by \$672,000, or 4.4%, to \$14.8 million in 2015, compared to \$15.4 million in 2014. The \$15.4 million in 2014 was a decrease of \$893,000, or 5.5%, compared to \$16.3 million in 2013. The declines in 2015 and 2014 were related to declines in service charges on deposits within Park's Ohio-based operations, largely as a result of a decline in fee income from overdraft charges and other non-sufficient funds (NSF) charges. Park's customers did not use our courtesy overdraft program as frequently in 2014 and 2015.

Fee income earned from origination and sale into the secondary market of long-term, fixed-rate mortgage loans is included within "Other service income". Other service income increased by \$979,000, or 9.4%, to \$11.4 million in 2015, compared to \$10.5 million in 2014. The \$10.5 million in 2014 was a decrease of \$2.5 million, or 19%, compared to \$12.9 million in 2013. The increase at PNB during 2015 was primarily due to a corresponding increase in the amount of mortgage loans originated. The decline of \$1.0 million at SEPH in 2015 is due to a decline in the recovery of fees in 2015. The decrease during 2014 consisted of a \$3.7 million decrease at PNB offset by a \$1.2 million increase at SEPH due to the recovery of fees. The decrease in other service income in 2014 at PNB was primarily due to a corresponding decrease in the amount of mortgage loans originated.

Checkcard fee income, which is generated from debit card transactions, increased \$991,000, or 7.3%, to \$14.6 million in 2015, compared to \$13.6 million in 2014. The \$13.6 million in 2014 was an increase of \$615,000, or 4.7%, compared to \$13.0 million in 2013. The increases in 2015 and 2014 were attributable to continued increases in the volume of debit card transactions.

Bank owned life insurance income increased by \$922,000, or 19.0%, to \$5.8 million in 2015, compared to \$4.9 million in 2014. The increase was primarily related to \$1.3 million of income from death benefits paid on policies during 2015, compared to \$383,000 of income from death benefits paid on policies in 2014.

Gain on the sale of OREO, net, totaled \$1.6 million in 2015, a decrease of \$3.9 million, compared to \$5.5 million in 2014. The \$5.5 million in 2014 was an increase of \$2.4 million, compared to \$3.1 million in 2013. The table below provides details on the OREO sales at PNB and SEPH in 2015, 2014 and 2013.

Other miscellaneous income increased by \$1.7 million, or 29.7%, to \$7.5 million in 2015, compared to \$5.8 million in 2014. The increase in 2015 was primarily due to \$1.2 million in income from the operation of OREO properties.

**Table 21 – Sales of OREO**

(In thousands)	OREO Properties Sold	Book Balance of OREO Sold	Net Proceeds of OREO Sold	Gain on Sale <sup>(1)</sup>
<b>2015:</b>				
PNB	65	\$ 6,853	\$ 7,332	\$ 479
PNB participations in Vision assets	3	521	984	463
SEPH	20	8,158	8,742	584
<b>Total</b>	<b>88</b>	<b>\$15,532</b>	<b>\$17,058</b>	<b>\$1,526</b>
<b>2014:</b>				
PNB	90	\$ 7,271	\$ 8,191	\$ 920
PNB participations in Vision assets	1	1,826	3,085	1,259
SEPH	114	13,258	16,522	3,264
<b>Total</b>	<b>205</b>	<b>\$22,355</b>	<b>\$27,798</b>	<b>\$5,443</b>
<b>2013:</b>				
PNB	111	\$ 9,527	\$10,161	\$ 634
PNB participations in Vision assets	—	—	—	—
SEPH	104	10,369	12,882	2,513
<b>Total</b>	<b>215</b>	<b>\$19,896</b>	<b>\$23,043</b>	<b>\$3,147</b>

(1) The gain on sale amounts above exclude any deferred gain on sale.

OREO devaluations, which result from declines in the fair value (less anticipated selling costs) of property acquired through foreclosure, totaled \$1.6 million in 2015, a decrease of \$814,000, or 33.8%, compared to \$2.4 million in 2014. The \$2.4 million in 2014 was a decrease of \$774,000, or 24.3% compared to \$3.2 million in 2013. Of the \$1.6 million in OREO devaluations in 2015, \$1.2 million were related to devaluations at PNB, of the \$2.4 million in OREO devaluations in 2014, \$1.6 million were related to PNB, and of the \$3.2 million in OREO devaluations in 2013, \$2.6 million were related to PNB. The decline in OREO devaluations is consistent with the trend of lower OREO balances across the Park organization, which totaled \$18.7 million, \$22.6 million and \$34.6 million at December 31, 2015, 2014 and 2013, respectively.

Gain on the sale of commercial loans held for sale was \$756,000 for 2015.

This was related to certain commercial loans, which had a book balance of \$144,000, that were sold in the first quarter of 2015. Gain on sale of commercial loans held for sale was \$1.9 million in 2014. PNB sold \$12.7 million of commercial loans held for sale in 2014, which resulted in a \$328,000 loss on sale. SEPH sold \$6.4 million of commercial loans held for sale in 2014, which resulted in a \$2.2 million gain on sale.

**Other Expense:** Other expense was \$186.6 million in 2015, compared to \$187.5 million in 2014, and \$181.5 million in 2013. Other expense decreased by \$896,000, or 0.5% in 2015, and increased by \$6.0 million, or 3.3% in 2014. The following table displays total other expense for Park for 2015, 2014 and 2013.

**Table 22 – Other Expense**

Year Ended December 31, (In thousands)	2015	2014	2013
Salaries	\$ 86,189	\$ 81,977	\$ 80,985
Employee benefits	21,296	19,991	19,313
Data processing fees	5,037	4,712	4,174
Professional fees and services	23,452	29,580	27,865
Net occupancy expense of bank premises	9,686	10,006	9,804
Furniture and equipment expense	11,806	11,571	11,249
Insurance	5,629	5,723	5,205
Marketing	3,983	4,371	3,790
Postage and telephone	5,130	5,268	5,790
State taxes	3,566	2,290	3,702
OREO expense	1,446	2,063	2,731
Miscellaneous	9,394	9,958	6,907
<b>Total other expense</b>	<b>\$186,614</b>	<b>\$187,510</b>	<b>\$181,515</b>
Full-time equivalent employees	1,793	1,801	1,836

The following table breaks out the change in other expense for the year ended December 31, 2015, compared to the year ended December 31, 2014, and for the year ended December 31, 2014 compared to the year ended December 31, 2013 in each of Park's Ohio-based operations and SEPH.

**Table 23 – Other Expense Breakout**

(In thousands)	Change from 2014 to 2015			Change from 2013 to 2014		
	Ohio-based Operations	SEPH	Total	Ohio-based Operations	SEPH	Total
Salaries	\$ 4,556	\$ (344)	\$ 4,212	\$ 1,195	\$ (203)	\$ 992
Employee benefits	1,510	(205)	1,305	430	248	678
Data processing fees	325	—	325	538	—	538
Professional fees and services	(780)	(5,348)	(6,128)	598	1,117	1,715
Net occupancy expense of bank premises	(320)	—	(320)	206	(4)	202
Furniture and equipment expense	236	(1)	235	334	(12)	322
Insurance	(88)	(6)	(94)	508	10	518
Marketing	(388)	—	(388)	581	—	581
Postage and telephone	(135)	(3)	(138)	(521)	(1)	(522)
State taxes	1,351	(75)	1,276	(1,451)	39	(1,412)
OREO expense	(428)	(189)	(617)	(684)	16	(668)
Miscellaneous	(1,151)	587	(564)	4,706	(1,655)	3,051
<b>Total other expense</b>	<b>\$ 4,688</b>	<b>\$(5,584)</b>	<b>\$ (896)</b>	<b>\$ 6,440</b>	<b>\$ (445)</b>	<b>\$ 5,995</b>

Salaries expense increased \$4.2 million, or 5.1%, to \$86.2 million in 2015, and increased by \$1.0 million, or 1.2%, to \$82.0 million in 2014. The increase in 2015 was due to an increase in salaries of \$2.8 million, an increase in incentive compensation of \$848,000, and an increase in share-based compensation expense related to the Park 2013 Long-Term Incentive Plan of \$407,000 compared to 2014. While total full-time equivalent employees did not increase in 2015, Park has experienced an increase in higher paid positions. The increase in 2014 was primarily due to an increase of \$992,000 in salary expense. Park had 1,793 full-time equivalent employees at year-end 2015, compared to 1,801 full-time equivalent employees at year-end 2014, and 1,836 full-time equivalent employees at year-end 2013.

Employee benefits expense increased \$1.3 million, or 6.5%, to \$21.3 million in 2015, and increased by \$678,000, or 3.5%, to \$20.0 million in 2014. The increase in 2015 was due to a \$1.3 million increase in pension and salary deferral plan expense, compared to 2014. The increase in 2014 was primarily due to increases of \$3.4 million in group medical insurance, and \$1.2 million in other employee benefits, offset by a \$4.1 million decrease in retirement benefit expense.

Professional fees and services decreased \$6.1 million, or 20.7%, to \$23.5 million in 2015, compared to \$29.6 million in 2014. The \$29.6 million in 2014 was an increase of \$1.7 million, or 6.2%, compared to \$27.9 million in 2013. This subcategory of total other expense includes legal fees, management consulting fees, director fees, audit fees, regulatory examination fees and memberships in industry associations. The decrease in professional fees and services expense in 2015 was largely related to declines in legal expenses associated with PNB participations in Vision loans and other loan relationships at SEPH. The increase in professional fees and services expense in 2014 was primarily due to increases in legal and consulting fees at both PNB and SEPH.

OREO expense declined \$617,000, or 29.9%, to \$1.4 million in 2015, compared to \$2.1 million in 2014. The \$2.1 million in 2014 was a decline of \$668,000, or 24.5%, compared to \$2.7 million in 2013. The decline in OREO expense was consistent with the trend of lower OREO balances across the Park organization, which totaled \$18.7 million, \$22.6 million and \$34.6 million at December 31, 2015, 2014 and 2013, respectively.

The subcategory "Miscellaneous" other expense includes expenses for supplies, travel, charitable contributions, and other miscellaneous expense. The subcategory miscellaneous other expense decreased by \$564,000, or 5.7%, to \$9.4 million in 2015, compared to \$10.0 million in 2014. The \$10.0 million in 2014 was an increase of \$3.1 million, or 44.2%, compared to the \$6.9 million in 2013. The \$3.1 million increase in 2014 was primarily due to a charitable contribution and a contract termination fee.

**Income Taxes:** Federal income tax expense was \$32.6 million in 2015, compared to \$36.5 million in 2014, and \$32.5 million in 2013. Federal income tax expense as a percentage of income before taxes was 28.7% in 2015, 30.3% in 2014, and 29.7% in 2013. The difference between the statutory federal income tax rate of 35% and Park's effective tax rate reflects permanent tax differences, primarily consisting of tax-exempt interest income from municipal investments and loans, qualified affordable housing and historical tax credits, bank owned life insurance income, and dividends paid on common shares held within Park's salary deferral plan. Park's permanent tax differences for 2015 were approximately \$7.2 million compared to \$5.7 million for 2014.

## CREDIT EXPERIENCE

**Provision for (Recovery of) Loan Losses:** The provision for (recovery of) loan losses is the amount added to the allowance for loan losses to ensure the allowance is sufficient to absorb probable, incurred credit losses. The amount of the provision for (recovery of) loan losses is determined by management after reviewing the risk characteristics of the loan portfolio, historic and current loan loss experience and current economic conditions.

The table below provides additional information on the provision for loan losses and the ALLL for Park for 2015, 2014 and 2013.

**Table 24 – ALLL Information, Park**

(In thousands)	2015	2014	2013
ALLL, beginning balance	\$ 54,352	\$ 59,468	\$ 55,537
Charge-offs	14,290	24,780	19,153
Recoveries	(11,442)	(26,997)	(19,669)
<b>Net charge-offs (recoveries)</b>	<b>2,848</b>	<b>(2,217)</b>	<b>(516)</b>
Provision for (recovery of) loan losses	4,990	(7,333)	3,415
<b>ALLL, ending balance</b>	<b>\$ 56,494</b>	<b>\$ 54,352</b>	<b>\$ 59,468</b>
Average loans	\$4,909,579	\$4,717,297	\$4,514,781
<b>Net charge-offs as a percentage of average loans</b>	<b>0.06%</b>	<b>(0.05)%</b>	<b>(0.01)%</b>

Park's Ohio-based subsidiaries, PNB and GFSC, are the only subsidiaries that carry an ALLL balance. The table below provides additional information on the provision for loan losses and the ALLL for Park's Ohio-based subsidiaries for 2015, 2014 and 2013.

**Table 25 – ALLL Information, Park's Ohio-based Subsidiaries**

(In thousands)	2015	2014	2013
ALLL, beginning balance	\$ 54,352	\$ 59,468	\$ 55,537
<b>Charge-offs:</b>			
Ohio-based subsidiaries loans	14,143	22,988	16,809
PNB participations in Vision loans	20	667	131
<b>Total charge-offs</b>	<b>14,163</b>	<b>23,655</b>	<b>16,940</b>
<b>Recoveries:</b>			
Ohio-based subsidiaries loans	(5,770)	(6,613)	(4,942)
PNB participations in Vision loans	(1,455)	(6,865)	(715)
<b>Total recoveries</b>	<b>(7,225)</b>	<b>(13,478)</b>	<b>(5,657)</b>
<b>Net charge-offs</b>	<b>6,938</b>	<b>10,177</b>	<b>11,283</b>
<b>Provision for (recovery of) loan losses:</b>			
Ohio-based subsidiaries loans	10,515	11,259	16,095
PNB participations in Vision loans	(1,435)	(6,198)	(881)
<b>Total provision for loan losses</b>	<b>9,080</b>	<b>5,061</b>	<b>15,214</b>
<b>ALLL, ending balance</b>	<b>\$ 56,494</b>	<b>\$ 54,352</b>	<b>\$ 59,468</b>
<b>Average loans, Ohio-based subsidiaries</b>	<b>\$4,891,670</b>	<b>\$4,685,461</b>	<b>\$4,467,156</b>
<b>Net charge-offs as a percentage of average loans</b>	<b>0.14%</b>	<b>0.22%</b>	<b>0.25%</b>
<b>Net charge-offs as a percentage of average loans — excluding PNB participations in Vision loans</b>	<b>0.17%</b>	<b>0.35%</b>	<b>0.25%</b>

SEPH, as a non-bank subsidiary of Park, does not carry an ALLL balance, but recognizes a provision for loan losses when a charge-off is taken and recognizes a recovery of loan losses when a recovery is received.

**Table 26 – ALLL Information, SEPH**

(In thousands)	2015	2014	2013
ALLL, beginning balance	\$ —	\$ —	\$ —
Charge-offs	127	1,125	2,213
Recoveries	(4,217)	(13,519)	(14,012)
<b>Net recoveries</b>	<b>(4,090)</b>	<b>(12,394)</b>	<b>(11,799)</b>
Recovery of loan losses	(4,090)	(12,394)	(11,799)
<b>ALLL, ending balance</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
Average loans	\$17,910	\$ 31,836	\$ 47,625
<b>Net recoveries as a percentage of average loans</b>	<b>(22.84)%</b>	<b>(38.93)%</b>	<b>(24.77)%</b>

# M A N A G E M E N T ' S   D I S C U S S I O N   &   A N A L Y S I S

At year-end 2015, the allowance for loan losses was \$56.5 million, or 1.11% of total loans outstanding, compared to \$54.4 million, or 1.13% of total loans outstanding at year-end 2014, and \$59.5 million, or 1.29% of total loans outstanding at year-end 2013. The table below provides additional information related to specific reserves on impaired commercial loans and general reserves for all other loans in Park's portfolio at December 31, 2015, 2014 and 2013.

**Table 27 – Park General Reserve Trends**

Year Ended December 31, (In thousands)	2015	2014	2013
Allowance for loan losses, end of period	\$ 56,494	\$ 54,352	\$ 59,468
Specific reserves	4,191	3,660	10,451
<b>General reserves</b>	<b>\$ 52,303</b>	<b>\$ 50,692</b>	<b>\$ 49,017</b>
Total loans	\$5,068,085	\$4,829,682	\$4,620,505
Impaired commercial loans	80,599	73,676	112,304
<b>Non-impaired loans</b>	<b>\$4,987,486</b>	<b>\$4,756,006</b>	<b>\$4,508,201</b>
Allowance for loan losses as a percentage of year-end loans	1.11%	1.13%	1.29%
General reserves as a percentage of non-impaired loans	1.05%	1.07%	1.09%

General reserves increased \$1.6 million, or 3.2%, to \$52.3 million at December 31, 2015, compared to \$50.7 million at December 31, 2014. The increase in general reserves was due to a \$2.1 million increase in general reserves in the commercial loan portfolio, as this portfolio of loans experienced significant growth in 2015, offset by a \$0.5 million decline in general reserves in the consumer loan portfolio.

Management believes that the allowance for loan losses at year-end 2015 is adequate to absorb probable, incurred credit losses in the loan portfolio. See Note 1 of the Notes to Consolidated Financial Statements and the discussion under the heading "CRITICAL ACCOUNTING POLICIES" earlier in this Management's Discussion and Analysis for additional information on management's evaluation of the adequacy of the allowance for loan losses.

The table below provides a summary of Park's loan loss experience over the past five years:

**Table 28 – Summary of Loan Loss Experience**

(In thousands)	2015	2014	2013	2012	2011
<b>Average loans (net of unearned interest)</b>	<b>\$4,909,579</b>	<b>\$4,717,297</b>	<b>\$4,514,781</b>	<b>\$4,410,661</b>	<b>\$4,713,511</b>
<b>Allowance for loan losses:</b>					
Beginning balance	54,352	59,468	55,537	68,444	143,575
<b>Charge-offs:</b>					
Commercial, financial and agricultural	2,478	3,779	6,160	26,847	18,350
Real estate – construction	470	1,316	1,791	9,985	64,166
Real estate – residential	2,352	3,944	3,207	8,607	20,691
Real estate – commercial	348	8,003	1,832	10,454	23,063
Consumer	8,642	7,738	6,163	5,375	7,612
Leases	—	—	—	—	—
<b>Total charge-offs</b>	<b>\$ 14,290</b>	<b>\$ 24,780</b>	<b>\$ 19,153</b>	<b>\$ 61,268</b>	<b>\$ 133,882</b>
<b>Recoveries:</b>					
Commercial, financial and agricultural	1,373	1,003	1,314	1,066	1,402
Real estate – construction	2,092	12,572	9,378	2,979	1,463
Real estate – residential	2,438	2,985	6,000	5,559	1,719
Real estate – commercial	2,241	7,759	726	783	1,825
Consumer	3,295	2,671	2,249	2,555	2,385
Leases	3	7	2	—	4
<b>Total recoveries</b>	<b>\$ 11,442</b>	<b>\$ 26,997</b>	<b>\$ 19,669</b>	<b>\$ 12,942</b>	<b>\$ 8,798</b>

**Table 28 – Summary of Loan Loss Experience** (continued)

(In thousands)	2015	2014	2013	2012	2011
<b>Net charge-offs (recoveries)</b>	<b>\$ 2,848</b>	<b>\$ (2,217)</b>	<b>\$ (516)</b>	<b>\$ 48,326</b>	<b>\$ 125,084</b>
Provision (recovery) included in earnings	4,990	(7,333)	3,415	35,419	63,272
Transfer of loans at fair value	—	—	—	—	(219)
Allowance for loan losses transferred to held for sale	—	—	—	—	(13,100)
<b>Ending balance</b>	<b>\$ 56,494</b>	<b>\$ 54,352</b>	<b>\$ 59,468</b>	<b>\$ 55,537</b>	<b>\$ 68,444</b>
<b>Ratio of net charge-offs (recoveries) to average loans</b>	<b>0.06%</b>	<b>(0.05)%</b>	<b>(0.01)%</b>	<b>1.10%</b>	<b>2.65%</b>
<b>Ratio of allowance for loan losses to end of year loans</b>	<b>1.11%</b>	<b>1.13%</b>	<b>1.29%</b>	<b>1.25%</b>	<b>1.59%</b>

The following table summarizes Park's allocation of the allowance for loan losses for the past five years:

**Table 29 – Allocation of Allowance for Loan Losses**

December 31, (In thousands)	2015	2014	2013	2012	2011					
Allowance	Percent of Loans Per Category	Allowance	Percent of Loans Per Category	Allowance	Percent of Loans Per Category					
Commercial, financial and agricultural	\$13,731	18.86%	\$10,719	17.73%	\$14,218	17.87%	\$15,635	18.51%	\$16,950	17.23%
Real estate – construction	8,416	3.42%	8,652	3.23%	6,855	3.38%	6,841	3.72%	14,433	5.04%
Real estate – residential	13,569	36.61%	14,772	38.33%	14,251	38.95%	14,759	38.51%	15,692	37.72%
Real estate – commercial	9,248	21.97%	8,808	22.15%	15,899	24.07%	11,736	24.54%	15,539	25.68%
Consumer	11,530	19.08%	11,401	18.49%	8,245	15.66%	6,566	14.65%	5,830	14.28%
Leases	—	0.06%	—	0.07%	—	0.07%	—	0.07%	—	0.05%
<b>Total</b>	<b>\$56,494</b>	<b>100.00%</b>	<b>\$54,352</b>	<b>100.00%</b>	<b>\$59,468</b>	<b>100.00%</b>	<b>\$55,537</b>	<b>100.00%</b>	<b>\$68,444</b>	<b>100.00%</b>

As of December 31, 2015, Park had no concentrations of loans exceeding 10% to borrowers engaged in the same or similar industries nor did Park have any loans to foreign governments.

**Nonperforming Assets:** Nonperforming loans include: 1) loans whose interest is accounted for on a nonaccrual basis; 2) troubled debt restructurings (TDRs) on accrual status; and 3) loans which are contractually past due 90 days or more as to principal or interest payments, where interest continues to accrue. Park's management continues to evaluate TDRs to determine those that may be appropriate to return to accrual status. Specifically, if the restructured note has been current for a period of at least six months and management expects the borrower will remain current throughout the renegotiated contract, the loan may be returned to accrual status. Nonperforming assets include nonperforming loans and OREO. OREO results from taking possession of property that served as collateral for a defaulted loan.

Generally, management obtains updated appraisal information for non-performing loans and OREO annually. As new appraisal information is received, management performs an evaluation of the appraisal and applies a discount for anticipated disposition costs to determine the net realizable value of the collateral, which is compared to the outstanding principal balance to determine if additional write-downs are necessary.

The following is a summary of Park's nonaccrual loans, accruing TDRs, loans past due 90 days or more and still accruing, and OREO for the last five years:

**Table 30 – Park Nonperforming Assets**

December 31, (In thousands)	2015	2014	2013	2012	2011
Nonaccrual loans	\$ 95,887	\$100,393	\$135,216	\$155,536	\$195,106
Accruing TDRs	24,979	16,254	18,747	29,800	28,607
Loans past due 90 days or more and accruing	1,921	2,641	1,677	2,970	3,489
<b>Total nonperforming loans</b>	<b>\$122,787</b>	<b>\$119,288</b>	<b>\$155,640</b>	<b>\$188,306</b>	<b>\$227,202</b>
OREO – PNB	7,456	10,687	11,412	14,715	13,240
OREO – SEPH	11,195	11,918	23,224	21,003	29,032
<b>Total nonperforming assets</b>	<b>\$141,438</b>	<b>\$141,893</b>	<b>\$190,276</b>	<b>\$224,024</b>	<b>\$269,474</b>
<b>Percentage of nonperforming loans to total loans</b>	<b>2.42%</b>	<b>2.47%</b>	<b>3.37%</b>	<b>4.23%</b>	<b>5.26%</b>
<b>Percentage of nonperforming assets to total loans</b>	<b>2.79%</b>	<b>2.94%</b>	<b>4.12%</b>	<b>5.03%</b>	<b>6.24%</b>
<b>Percentage of nonperforming assets to total assets</b>	<b>1.93%</b>	<b>2.03%</b>	<b>2.87%</b>	<b>3.37%</b>	<b>3.86%</b>

SEPH nonperforming assets for the last five years were as follows:

**Table 31 – SEPH Nonperforming Assets**

December 31, (In thousands)	2015	2014	2013	2012	2011
Nonaccrual loans	\$14,419	\$22,916	\$36,108	\$55,292	\$ 98,993
Accruing TDRs	—	97	—	—	2,265
Loans past due 90 days or more and accruing	—	—	—	—	122
<b>Total nonperforming loans</b>	<b>\$14,419</b>	<b>\$23,013</b>	<b>\$36,108</b>	<b>\$55,292</b>	<b>\$101,380</b>
OREO – SEPH	11,195	11,918	23,224	21,003	29,032
<b>Total nonperforming assets</b>	<b>\$25,614</b>	<b>\$34,931</b>	<b>\$59,332</b>	<b>\$76,295</b>	<b>\$130,412</b>
<b>Percentage of nonperforming loans to total loans</b>	<b>N.M.</b>	<b>N.M.</b>	<b>N.M.</b>	<b>N.M.</b>	<b>N.M.</b>
<b>Percentage of nonperforming assets to total loans</b>	<b>N.M.</b>	<b>N.M.</b>	<b>N.M.</b>	<b>N.M.</b>	<b>N.M.</b>
<b>Percentage of nonperforming assets to total assets</b>	<b>N.M.</b>	<b>N.M.</b>	<b>N.M.</b>	<b>N.M.</b>	<b>N.M.</b>

N.M. – Not meaningful

Nonperforming assets for Park, excluding SEPH, for the last five years were as follows:

**Table 32 – Park Excluding SEPH Nonperforming Assets**

December 31, (In thousands)	2015	2014	2013	2012	2011
Nonaccrual loans	\$ 81,468	\$ 77,477	\$ 99,108	\$100,244	\$ 96,113
Accruing TDRs	24,979	16,157	18,747	29,800	26,342
Loans past due 90 days or more and accruing	1,921	2,641	1,677	2,970	3,367
<b>Total nonperforming loans</b>	<b>\$108,368</b>	<b>\$ 96,275</b>	<b>\$119,532</b>	<b>\$133,014</b>	<b>\$125,822</b>
OREO – PNB	7,456	10,687	11,412	14,715	13,240
<b>Total nonperforming assets<sup>(1)</sup></b>	<b>\$115,824</b>	<b>\$106,962</b>	<b>\$130,944</b>	<b>\$147,729</b>	<b>\$139,062</b>
<b>Percentage of nonperforming loans to total loans</b>	<b>2.14%</b>	<b>2.00%</b>	<b>2.61%</b>	<b>3.03%</b>	<b>3.00%</b>
<b>Percentage of nonperforming assets to total loans</b>	<b>2.29%</b>	<b>2.23%</b>	<b>2.86%</b>	<b>3.36%</b>	<b>3.32%</b>
<b>Percentage of nonperforming assets to total assets</b>	<b>1.60%</b>	<b>1.55%</b>	<b>2.00%</b>	<b>2.26%</b>	<b>2.21%</b>

(1) Includes PNB participations in loans originated by Vision and related OREO totaling \$9.8 million, \$11.5 million, \$12.3 million, \$19.0 million and \$25.9 million for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, respectively.

Park's allowance for loan losses includes an allocation for loans specifically identified as impaired under GAAP. At December 31, 2015, loans considered to be impaired consisted substantially of commercial loans graded as "substandard" or "doubtful" and placed on non-accrual status. Specific reserves on impaired commercial loans are typically based on management's best estimate of the fair value of collateral securing these loans. The amount ultimately charged off for these loans may be different from the specific reserve as the ultimate liquidation of the collateral may be for amounts different from management's estimates.

When determining the quarterly and annual loan loss provision, Park reviews the grades of commercial loans. These loans are graded from 1 to 8. 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 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. Commercial loans graded 6 (substandard), also considered watch list credits, are considered to represent higher credit risk and, as a result, a higher loan loss reserve percentage is allocated to these loans. Generally, commercial loans that are graded a 6 are considered for partial charge-off or have been charged down to the net realizable value of the underlying collateral. Commercial loans that are graded a 7 (doubtful) are shown as nonperforming and Park charges these loans down to their fair value by taking a partial charge-off or recording a specific reserve. Any commercial loan graded an 8 (loss) is completely charged off.

The following table highlights the credit trends within the commercial loan portfolio of Park's Ohio-based operations.

**Table 33 – Park Ohio Commercial Credit Trends**

Year Ended December 31, (In thousands)	2015	2014	2013
Commercial loans*			
Pass rated	\$2,493,518	\$2,360,689	\$2,311,914
Special mention	24,223	15,946	26,361
Substandard	4,268	3,553	2,687
Impaired	66,232	51,323	77,038
<b>Total</b>	<b>\$2,588,241</b>	<b>\$2,431,511</b>	<b>\$2,418,000</b>

\*Commercial loans include: (1) Commercial, financial and agricultural loans, (2) Commercial real estate loans, (3) Commercial related loans in the construction real estate portfolio and (4) Commercial related loans in the residential real estate portfolio.

Delinquent and accruing loan trends for Park's Ohio-based operations have improved over the past 24 months. Delinquent and accruing loans were \$25.7 million, or 0.51% of total loans at December 31, 2015, compared to \$33.0 million, or 0.69% of total loans at December 31, 2014, and \$32.0 million, or 0.70% of total loans at December 31, 2013.

Impaired commercial loans for Park's Ohio-based operations were \$66.2 million as of December 31, 2015, an increase of \$14.9 million, compared to \$51.3 million as of December 31, 2014. The \$66.2 million of impaired commercial loans at December 31, 2015 included \$12.4 million of loans modified in a troubled debt restructuring which are currently on accrual status and performing in accordance with the restructured terms, up from \$3.6 million at December 31, 2014. The increase in 2015 was not due to an overall deterioration of credit quality, rather the increase was primarily due to a \$6.2 million loan relationship that moved to nonaccrual status and a \$7.9 million loan relationship that was deemed to be a TDR and is currently on accrual status. Impaired commercial loans were \$77.0 million at December 31, 2013. Impaired commercial loans are individually evaluated for impairment and specific reserves are established to cover any probable, incurred losses for those loans that have not been charged down to the net realizable value of the underlying collateral or to the net present value of expected cash flows.

Park had \$28.5 million of non-impaired commercial loans included on the watch list at December 31, 2015, compared to \$19.5 million of non-impaired commercial loans at year-end 2014, and \$29.0 million of non-impaired com-



mercial loans at year-end 2013. Commercial loans include: (1) commercial, financial and agricultural loans; (2) commercial real estate loans; (3) certain real estate construction loans; and (4) certain residential real estate loans. Park's watch list includes all criticized and classified commercial loans, defined by Park as loans rated special mention or worse, less those commercial loans currently considered to be impaired. As a percentage of year-end total commercial loans, Park's watch list of potential problem commercial loans was 1.1% in 2015, 0.8% in 2014, and 1.2% in 2013. The existing conditions of these loans do not warrant classification as nonaccrual. However, these loans have shown some weakness and management performs additional analyses regarding each borrower's ability to comply with payment terms for watch list loans.

As of December 31, 2015, management had taken partial charge-offs of approximately \$28.7 million related to the \$80.6 million of commercial loans considered to be impaired, compared to charge-offs of approximately \$32.5 million related to the \$73.7 million of impaired commercial loans at December 31, 2014. The table below provides additional information related to Park's impaired commercial loans at December 31, 2015, including those impaired commercial loans at PNB, PNB participations in impaired Vision loans and those impaired Vision commercial loans retained at SEPH.

**Table 34 – Park Impaired Commercial Loans**

December 31, 2015 (In thousands)	Unpaid Principal Balance (UPB)	Prior Charge- offs	Total Impaired Loans	Specific Reserve	Carrying Balance	Carrying Balance as a % of UPB
PNB	\$ 66,376	\$ 5,285	\$61,091	\$4,191	\$56,900	85.72%
PNB participations in Vision loans	9,495	4,354	5,141	—	5,141	54.14%
SEPH	33,433	19,066	14,367	—	14,367	42.97%
<b>Total Park</b>	<b>\$109,304</b>	<b>\$28,705</b>	<b>\$80,599</b>	<b>\$4,191</b>	<b>\$76,408</b>	<b>69.90%</b>

A significant portion of Park's allowance for loan losses is allocated to commercial loans. "Special mention" loans are loans that have potential weaknesses that may result in loss exposure to Park. "Substandard" loans are those that exhibit a well-defined weakness, jeopardizing repayment of the loans, resulting in a higher probability that Park will suffer a loss on the loans unless the weakness is corrected. Park's annualized 84-month loss experience, defined as charge-offs plus changes in specific reserves, within the commercial loan portfolio has been 0.50% of the principal balance of these loans. This annualized 84-month loss experience includes only the performance of the PNB loan portfolio and excludes the impact of PNB participations in Vision loans. The allowance for loan losses related to performing commercial loans was \$31.7 million or 1.26% of the outstanding principal balance of other accruing commercial loans at December 31, 2015.

The overall reserve of 1.26% for other accruing commercial loans breaks down as follows: pass-rated commercial loans are reserved at 1.21%; special mention commercial loans are reserved at 5.24%; and substandard commercial loans are reserved at 6.07%. The reserve levels for pass-rated, special mention and substandard commercial loans in excess of the annualized 84-month loss experience of 0.50% are due to the following factors which management reviews on a quarterly or annual basis:

- **Loss Emergence Period Factor:** Annually during the fourth quarter, management calculates the loss emergence period for each commercial loan segment. This loss emergence period is calculated based upon the average period of time it takes a credit to move from pass-rated to non-accrual. 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.
- **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 to nonaccrual.

- **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.

Generally, consumer loans are not individually graded. Consumer loans include: (1) mortgage and installment loans included in the construction real estate segment of the loan portfolio; (2) mortgage, home equity lines of credit (HELOC), and installment loans included in the residential real estate segment of the loan portfolio; and (3) all loans included in the consumer segment of the loan portfolio. The amount of loan loss reserve assigned to these loans is based on historical loss experience over the past 84 months. Management generally considers a one-year coverage period (the "Historical Loss Factor") appropriate because the probable loss on any given loan in the consumer loan pool should ordinarily become apparent in that time frame. However, management may incorporate adjustments to the Historical Loss Factor as circumstances warrant additional reserves (e.g., increased loan delinquencies, improving or deteriorating economic conditions, changes in lending management and underwriting standards, etc.). At December 31, 2015, the coverage level within the consumer portfolio was approximately 1.99 years.

The judgmental increases discussed above incorporate management's evaluation of the impact of environmental qualitative factors which pose additional risks and assignment of a component of the allowance for loan losses in consideration of these factors. Such environmental factors include: national and local economic trends and conditions; experience, ability and depth of lending management and staff; effects of any changes in lending policies and procedures; and levels of, and trends in, consumer bankruptcies, delinquencies, impaired loans, and charge-offs and recoveries. The determination of this component of the allowance for loan losses requires considerable management judgment. Management is working to address weaknesses in those loans that may result in future loss. Actual loss experience may be more or less than the amount allocated.

## **CAPITAL RESOURCES**

**Liquidity and Interest Rate Sensitivity Management:** Park's objective in managing our liquidity is to maintain the ability to continuously meet the cash flow needs of customers, such as borrowings or deposit withdrawals, while at the same time seeking higher yields from longer-term lending and investing activities.

Cash and cash equivalents decreased by \$88.2 million during 2015 to \$149.5 million at year end. Cash provided by operating activities was \$88.7 million in 2015, \$71.7 million in 2014, and \$121.3 million in 2013. Net income was the primary source of cash from operating activities during each year.

Cash used in investing activities was \$395.5 million in 2015, \$229.6 million in 2014 and \$112.6 million in 2013. Investment security transactions are the major use or source of cash in investing activities. Proceeds from the sale, repayment or maturity of securities provide cash and purchases of securities use cash. Net security transactions used cash of \$145.2 million in 2015, used cash of \$29.7 million in 2014, and provided cash of \$96.9 million in 2013. Another major use or source of cash in investing activities is the net increase or decrease in the loan portfolio. Cash used by the net increase in the loan portfolio was \$247.9 million in 2015, \$234.0 million in 2014, and \$212.3 million in 2013.

Cash provided by financing activities was \$218.5 million in 2015, \$248.5 million in 2014, and cash used in financing activities was \$62.9 million in 2013. A major source of cash for financing activities is the net change in deposits. Deposits increased and provided \$219.6 million of cash in 2015, \$338.0 million of cash in 2014, and \$74.0 million of cash in 2013. Of the \$338.0 million deposit increase in 2014, \$200 million was related to the settlement of brokered deposits in September 2014. Another major source of cash for financing activities is short-term borrowings and long-term debt.

In 2015, net short-term borrowings increased and provided \$117.3 million in cash, and net long-term borrowings decreased and used \$54.5 million in cash. In 2014, net short-term borrowings increased and provided \$35.0 million in cash, and net long-term borrowings decreased and used \$64.2 million in cash. In 2013, net short-term borrowings decreased and used \$102.1 million in cash, and net long-term borrowings increased and provided \$24.0 million in cash. Finally, cash declined by \$57.8 million in 2015, and \$57.9 million in 2014 and 2013, from the payment of cash dividends.

Funds are available from a number of sources, including the capital markets, the investment securities portfolio, the core deposit base, Federal Home Loan Bank borrowings and the capability to securitize or package loans for sale. In the opinion of Park's management, the present funding sources provide more than adequate liquidity for Park to meet our cash flow needs.

The following table shows interest rate sensitivity data for five different time intervals as of December 31, 2015:

**Table 35 – Interest Rate Sensitivity**

(In thousands)	0-3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
<b>Interest earning assets:</b>						
Investment securities <sup>(1)</sup>	\$ 93,652	\$ 121,436	\$ 427,060	\$ 241,070	\$ 761,109	\$ 1,644,327
Money market instruments	30,047	—	—	—	—	30,047
Loans <sup>(1)</sup>	1,319,775	1,186,140	1,781,602	615,429	165,139	5,068,085
<b>Total interest earning assets</b>	<b>1,443,474</b>	<b>1,307,576</b>	<b>2,208,662</b>	<b>856,499</b>	<b>926,248</b>	<b>6,742,459</b>
<b>Interest bearing liabilities:</b>						
Interest bearing transaction accounts <sup>(2)</sup>	\$ 547,871	\$ —	\$ 559,330	\$ —	\$ —	\$ 1,107,201
Savings accounts <sup>(2)</sup>	569,349	—	975,358	—	—	1,544,707
Time deposits	314,415	502,381	276,096	197,089	431	1,290,412
Other	—	1,290	—	—	—	1,290
<b>Total deposits</b>	<b>1,431,635</b>	<b>503,671</b>	<b>1,810,784</b>	<b>197,089</b>	<b>431</b>	<b>3,943,610</b>
Short-term borrowings	\$ 394,242	\$ —	\$ —	\$ —	\$ —	\$ 394,242
Long-term debt	—	—	488,105	100,000	150,000	738,105
Subordinated notes	15,000	—	30,000	—	—	45,000
<b>Total interest bearing liabilities</b>	<b>1,840,877</b>	<b>503,671</b>	<b>2,328,889</b>	<b>297,089</b>	<b>150,431</b>	<b>5,120,957</b>
<b>Interest rate sensitivity gap</b>	<b>(397,403)</b>	<b>803,905</b>	<b>(120,227)</b>	<b>559,410</b>	<b>775,817</b>	<b>1,621,502</b>
<b>Cumulative rate sensitivity gap</b>	<b>(397,403)</b>	<b>406,502</b>	<b>286,275</b>	<b>845,685</b>	<b>1,621,502</b>	
<b>Cumulative gap as a percentage of total interest earning assets</b>	<b>(5.89)%</b>	<b>6.03%</b>	<b>4.25%</b>	<b>12.54%</b>	<b>24.05%</b>	

(1) Investment securities and loans that are subject to prepayment are shown in the table by the earlier of their re-pricing date or their expected repayment date and not by their contractual maturity date. Nonaccrual loans of \$95.9 million are included within the three to twelve month maturity category.

(2) Management considers interest bearing transaction accounts and savings accounts to be core deposits and, therefore, not as rate sensitive as other deposit accounts and borrowed money. Accordingly, only 49% of interest bearing transaction accounts and 37% of savings accounts are considered to re-price within one year. If all of the interest bearing transaction accounts and savings accounts were considered to re-price within one year, the one-year cumulative gap would change from a positive 6.03% to a negative 16.73%.

The interest rate sensitivity gap analysis provides an overall picture of Park's static interest rate risk position. At December 31, 2015, the cumulative interest earning assets maturing or repricing within twelve months were \$2,751 million compared to the cumulative interest bearing liabilities maturing or repricing within twelve months of \$2,345 million. For the twelve-month cumulative gap position, rate sensitive assets exceeded rate sensitive liabilities by \$407 million or 6.03% of interest earning assets.

A positive twelve-month cumulative rate sensitivity gap (assets exceed liabilities) would suggest that Park's net interest margin would increase if interest rates were to increase. Conversely, a negative twelve-month cumulative rate sensitivity gap would suggest that Park's net interest margin would decrease if interest rates were to increase. However, the usefulness of the interest rate sensitivity gap analysis as a forecasting tool in projecting net interest income is limited. The gap analysis does not consider the magnitude, timing or frequency by which assets or liabilities will reprice during a period and also contains assumptions as to the repricing of transaction and savings accounts that may not prove to be correct.

The cumulative twelve-month interest rate sensitivity gap position at year-end 2014 was a positive \$544 million or 8.46% of total interest earning assets. The percentage of interest earning assets maturing or repricing within one year was 40.8% at year-end 2015, compared to 41.8% at year-end 2014. The percentage of interest bearing liabilities maturing or repricing within one year was 45.8% at year-end 2015, compared to 43.2% at year-end 2014.

Management supplements the interest rate sensitivity gap analysis with periodic simulations of balance sheet sensitivity under various interest rate and what-if scenarios to better forecast and manage the net interest margin. Park's management uses an earnings simulation model to analyze net interest income sensitivity to movements in interest rates. This model is based on actual cash flows and repricing characteristics for balance sheet instruments and incorporates market-based assumptions regarding the impact of changing interest rates on the prepayment rate of certain assets and liabilities. This model also includes management's projections for activity levels of various balance sheet instruments and non-interest fee income and operating expense. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in interest rates are also incorporated into this earnings simulation model. These assumptions are inherently uncertain and, as a result, the model cannot precisely measure net interest income and net income. Actual results will differ from simulated results due to the timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management strategies.

Management uses a 50 basis point change in market interest rates per quarter for a total of 200 basis points per year in evaluating the impact of changing interest rates on net interest income and net income over a twelve-month horizon. At December 31, 2015, the earnings simulation model projected that net income would decrease by 0.4% using a rising interest rate scenario and decrease by 10.9% using a declining interest rate scenario over the next year. At December 31, 2014, the earnings simulation model projected that net income would increase by 1.3% using a rising interest rate scenario and decrease by 7.1% using a declining interest rate scenario over the following year. At December 31, 2013, the earnings simulation model projected that net income would decrease by 1.4% using a rising interest rate scenario and decrease by 10.3% using a declining interest rate scenario over the following year. Consistently, over the past several years, Park's earnings simulation model has projected that changes in interest rates would have only a small impact on net income and the net interest margin. Park's net interest margin was 3.39% in 2015, 3.55% in 2014 and 3.61% in 2013.

**CONTRACTUAL OBLIGATIONS**

In the ordinary course of operations, Park enters into certain contractual obligations. The following table summarizes Park's significant and determinable obligations by payment date at December 31, 2015.

Further discussion of the nature of each specified obligation is included in the referenced Note to the Consolidated Financial Statements.

**Table 36 – Contractual Obligations**

December 31, 2015 (In thousands)	Note	Payments Due In				Total
		0–1 Years	1–3 Years	3–5 Years	Over 5 Years	
Deposits without stated maturity	12	\$4,057,230	\$ —	\$ —	\$ —	\$4,057,230
Certificates of deposit	12	814,387	278,505	197,089	431	1,290,412
Short-term borrowings	14	394,242	—	—	—	394,242
Long-term debt	15	—	500,000	100,000	150,000	750,000
Subordinated notes	16	—	—	—	45,000	45,000
Operating leases	10	1,475	2,380	1,413	520	5,788
Defined benefit pension plan <sup>(1)</sup>	18	5,010	11,121	14,097	45,831	76,059
Purchase obligations		2,421	—	—	—	2,421
<b>Total contractual obligations</b>		<b>\$5,274,765</b>	<b>\$792,006</b>	<b>\$312,599</b>	<b>\$241,782</b>	<b>\$6,621,152</b>

(1) Pension payments reflect 10 years of payments, through 2025.

The Corporation's operating lease obligations represent short-term and long-term lease and rental payments for facilities and equipment. Purchase obligations represent obligations under agreements to purchase goods or services that are enforceable and legally binding on the Corporation.

**Commitments, Contingent Liabilities, and Off-Balance Sheet**

**Arrangements:** In order to meet the financing needs of our customers, the Corporation issues loan commitments and standby letters of credit. At December 31, 2015, the Corporation had \$888.4 million of loan commitments for commercial, commercial real estate, and residential real estate loans and had \$12.3 million of standby letters of credit. At December 31, 2014, the Corporation had \$869.8 million of loan commitments for commercial, commercial real estate, and residential real estate loans and had \$12.5 million of standby letters of credit.

Commitments to extend credit under loan commitments and standby letters of credit do not necessarily represent future cash requirements. These commitments often expire without being drawn upon. However, all of the loan commitments and standby letters of credit were permitted to be drawn upon in 2015. See Note 23 of the Notes to Consolidated Financial Statements for additional information on loan commitments and standby letters of credit.

The Corporation did not have any unrecorded significant contingent liabilities at December 31, 2015.

**Capital:** Park's primary means of maintaining capital adequacy is through retained earnings. At December 31, 2015, the Corporation's total shareholders' equity was \$713.4 million, compared to \$696.5 million at December 31, 2014. Total shareholders' equity at December 31, 2015 was 9.76% of total assets, compared to 9.95% of total assets at December 31, 2014.

Tangible shareholders' equity [total shareholders' equity (\$713.4 million) less goodwill (\$72.3 million)] was \$641.0 million at December 31, 2015 and was \$624.2 million at December 31, 2014. At December 31, 2015, tangible shareholders' equity was 8.86% of total tangible assets [total assets (\$7,311 million) less goodwill (\$72.3 million)], compared to 9.01% at December 31, 2014.

Net income was \$81.0 million in 2015, \$84.0 million in 2014 and \$76.9 million in 2013.

Cash dividends declared for Park's common shares were \$57.9 million in each of 2015, 2014 and 2013. On a per share basis, the cash dividends declared were \$3.76 per share in each of 2015, 2014 and 2013.

Park repurchased 71,700, 29,700, and 10,550 common shares for treasury in 2015, 2014, and 2013, respectively. Common shares held in treasury had a balance of \$82.5 million at December 31, 2015, \$77.4 million at December 31, 2014, and \$76.1 million at December 31, 2013. During 2015, the value of common shares held in treasury was reduced by \$1.0 million as a result of the issuance of an aggregate of 10,150 common shares to directors of Park and to the directors of Park's bank subsidiary PNB (and its divisions), and increased by \$6.1 million due to the repurchase of 71,700 common shares for treasury. During 2014, the value of common shares held in treasury was reduced by \$1.0 million as a result of the issuance of an aggregate of 10,200 common shares to directors of Park and to the directors of Park's bank subsidiary PNB (and its divisions), and increased by \$2.4 million due to the repurchase of 29,700 common shares for treasury. During 2013, the value of common shares held in treasury was reduced by \$1.1 million as a result of the issuance of an aggregate of 10,550 common shares to directors of Park and to the directors of Park's bank subsidiary PNB (and its divisions), and increased by \$0.8 million due to the repurchase of 10,550 common shares held in treasury.

Park did not issue any new common shares, that it had not already held as treasury shares, in any of 2015, 2014 or 2013. Common shares had a balance of \$304.0 million, \$303.1 million, and \$302.7 million at December 31, 2015, 2014, and 2013, respectively.

Accumulated other comprehensive loss (net) was \$15.6 million at December 31, 2015, compared to \$13.6 million at December 31, 2014, and \$35.4 million at December 31, 2013. During the 2013 year, the change in net unrealized holding gain (loss) on securities available for sale, net of tax, was a loss of \$39.4 million and Park did not realize any after-tax gains, resulting in an unrealized loss on securities available for sale of \$29.8 million at December 31, 2013. During the 2014 year, the change in net unrealized holding gain (loss) on securities available for sale, net of tax, was a gain of \$31.1 million. During the 2015 year, the change in net unrealized holding gain (loss) on securities available for sale, net of tax, was a loss of \$1.5 million. Finally, Park recognized an other comprehensive loss of \$486,000, net of tax, related to the change in pension plan assets and benefit obligations in 2015, compared to a loss of \$9.3 million, net of tax, in 2014, and a gain of \$21.5 million, net of tax, in 2013.

Financial institution regulators have established guidelines for minimum capital ratios for banks, thrifts and bank holding companies. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. During the first quarter of 2015, Park adopted the new Basel III regulatory capital framework as approved by the federal banking agencies. The adoption of this new framework modified the calculation of the various capital ratios, added a new ratio, common equity tier 1, and revised the adequately and well capitalized thresholds. Additionally, under the new rule, in order to avoid limitations on capital distributions, including dividend payments, Park must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. Park's leverage capital ratio was 9.22% at December 31, 2015 and exceeded the minimum capital required by \$380 million. The minimum Tier 1 risk-based capital ratio (defined as leverage capital divided by risk-adjusted assets) at December 31, 2015 was 6%. Park's Tier 1 risk-based capital ratio was 12.82% at December 31, 2015 and exceeded the minimum capital required by \$357 million. The minimum total risk-based capital ratio (defined as leverage capital plus supplemental capital divided by risk-adjusted assets) at December 31, 2015 was 8%. Park's total risk-based capital ratio was 14.49% at December 31, 2015 and exceeded the minimum capital required by \$340 million. Park's common equity tier 1 capital ratio was 12.54% at December 31, 2015 and exceeded the minimum capital required by \$421 million.

PNB, the only financial institution subsidiary of Park, met the well capitalized ratio guidelines at December 31, 2015. See Note 26 of the Notes to Consolidated Financial Statements for the capital ratios for Park and PNB.

**Effects of Inflation:** Balance sheets of financial institutions typically contain assets and liabilities that are monetary in nature and, therefore, differ greatly from most commercial and industrial companies which have significant investments in premises, equipment and inventory. During periods of inflation, financial institutions that are in a net positive monetary position will experience a decline in purchasing power, which does have an impact on growth. Another significant effect on internal equity growth is other expenses, which tend to rise during periods of inflation.

Management believes the most significant impact on financial results is the Corporation's ability to align our asset/liability management program to react to changes in interest rates.

## SELECTED FINANCIAL DATA

**Table 37 – Consolidated Five-Year Selected Financial Data**

December 31, (Dollars in thousands, except per share data)	2015	2014	2013	2012	2011
<b>Results of operations:</b>					
Interest income	\$ 265,074	\$ 265,143	\$ 262,947	\$ 285,735	\$ 331,880
Interest expense	37,442	40,099	41,922	50,420	58,646
Net interest income	227,632	225,044	221,025	235,315	273,234
Provision for (recovery of) loan losses	4,990	(7,333)	3,415	35,419	63,272
Net interest income after provision for (recovery of) loan losses	222,642	232,377	217,610	199,896	209,962
Gain on sale of Vision business <sup>(1)</sup>	—	—	—	22,167	—
Non-interest income	77,551	75,549	73,277	70,236	94,910
Non-interest expense	186,614	187,510	181,515	181,127	181,426
Net income	81,012	83,957	76,869	78,480	82,222
Net income available to common shareholders	81,012	83,957	76,869	75,055	76,366
<b>Per common share:</b>					
Net income per common share – basic	5.27	5.45	4.99	4.87	4.96
Net income per common share – diluted	5.26	5.45	4.99	4.87	4.96
Cash dividends declared	3.76	3.76	3.76	3.76	3.76
<b>Average balances:</b>					
Loans	\$4,909,579	\$4,717,297	\$4,514,781	\$4,410,661	\$4,713,511
Investment securities	1,478,208	1,432,692	1,377,887	1,613,131	1,848,880
Money market instruments and other	342,997	204,874	272,851	166,319	78,593
<b>Total earning assets</b>	<b>6,730,784</b>	<b>6,354,863</b>	<b>6,165,519</b>	<b>6,190,111</b>	<b>6,640,984</b>
Non-interest bearing deposits	1,311,628	1,196,625	1,117,379	1,048,796	999,085
Interest bearing deposits	4,155,196	3,820,928	3,742,361	3,786,601	4,193,404
<b>Total deposits</b>	<b>5,466,824</b>	<b>5,017,553</b>	<b>4,859,740</b>	<b>4,835,397</b>	<b>5,192,489</b>
Short-term borrowings	\$ 258,717	\$ 263,270	\$ 253,123	\$ 258,661	\$ 297,537
Long-term debt	793,469	867,615	870,538	907,704	881,921
Shareholders' equity	710,327	680,449	643,609	688,166	742,013
Common shareholders' equity	710,327	680,449	643,609	657,289	644,309
<b>Total assets</b>	<b>7,306,460</b>	<b>6,893,302</b>	<b>6,701,049</b>	<b>6,765,240</b>	<b>7,204,311</b>

**Table 37 – Consolidated Five-Year Selected Financial Data** (continued)

December 31, (Dollars in thousands, except per share data)	2015	2014	2013	2012	2011
<b>Ratios:</b>					
Return on average assets <sup>(4)</sup>	1.11%	1.22%	1.15%	1.11%	1.06%
Return on average common equity <sup>(5)</sup>	11.40%	12.34%	11.94%	11.42%	11.85%
Net interest margin <sup>(2)</sup>	3.39%	3.55%	3.61%	3.83%	4.14%
Efficiency ratio <sup>(2)</sup>	60.98%	62.21%	61.40%	55.00%	49.02%
Dividend payout ratio <sup>(3)</sup>	71.51%	69.02%	75.39%	73.82%	70.43%
Average shareholders' equity to average total assets	9.72%	9.87%	9.60%	10.17%	10.30%
Common equity tier 1 capital	12.54%	N/A	N/A	N/A	N/A
Leverage capital	9.22%	9.25%	9.48%	9.17%	9.81%
Tier 1 capital	12.82%	13.39%	13.27%	13.12%	14.15%
Risk-based capital	14.49%	15.14%	15.91%	15.77%	16.65%

(1) The Vision business was sold on February 16, 2012 for a gain on sale of \$22.2 million.

(2) Computed on a fully taxable equivalent basis.

(3) Cash dividends paid divided by net income.

(4) Reported measure uses net income available to common shareholders.

The following table is a summary of selected quarterly results of operations for the years ended December 31, 2015 and 2014.

**Table 38 – Quarterly Financial Data**

(Dollars in thousands, except share data)	March 31	June 30	Sept. 30	Dec. 31
<b>2015:</b>				
Interest income	\$65,018	\$65,804	\$67,087	\$67,165
Interest expense	9,483	9,289	9,372	9,298
Net interest income	55,535	56,515	57,715	57,867
Provision for (recovery of) loan losses	1,632	1,612	2,404	(658)
Income before income taxes	27,056	29,427	28,073	29,023
Net income	19,044	21,039	20,040	20,889
Per common share data:				
Net income per common share – basic	1.24	1.37	1.30	1.36
Net income per common share – diluted	1.23	1.37	1.30	1.36
Weighted-average common shares outstanding – basic	15,379,170	15,370,882	15,361,087	15,345,986
Weighted-average common shares equivalent – diluted	15,421,928	15,407,881	15,401,808	15,384,451
<b>2014:</b>				
Interest income	\$64,342	\$66,363	\$66,622	\$67,816
Interest expense	9,862	9,802	9,913	10,522
Net interest income	54,480	56,561	56,709	57,294
Provision for (recovery of) loan losses	(2,225)	(1,260)	4,501	(8,349)
Income before income taxes	27,574	31,251	26,632	34,959
Net income	19,577	21,810	18,269	24,301
Per common share data:				
Net income per common share – basic	1.27	1.42	1.19	1.58
Net income per common share – diluted	1.27	1.42	1.19	1.58
Weighted-average common shares outstanding – basic	15,401,105	15,392,435	15,392,421	15,393,924
Weighted-average common shares equivalent – diluted	15,414,897	15,412,167	15,413,664	15,414,433

Park's common shares (symbol: PRK) are traded on NYSE MKT LLC. At December 31, 2015, Park had 3,781 shareholders of record. The following table sets forth the high, low and closing sale prices of, and dividends declared on the common shares for each quarterly period for the years ended December 31, 2015 and 2014, as reported by NYSE MKT LLC.

**Table 39 – Market and Dividend Information**

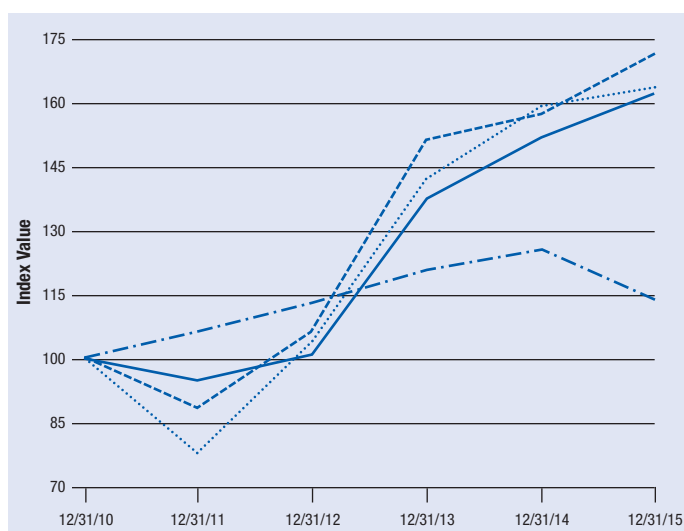
	High	Low	Last Price	Cash Dividend Declared Per Share
<b>2015:</b>				
First Quarter	\$ 88.39	\$ 79.46	\$ 85.56	\$0.94
Second Quarter	90.00	81.01	87.37	0.94
Third Quarter	90.92	80.15	90.22	0.94
Fourth Quarter	99.68	84.27	90.48	0.94
<b>2014:</b>				
First Quarter	\$ 86.78	\$ 75.06	\$ 76.89	\$0.94
Second Quarter	83.32	70.51	77.20	0.94
Third Quarter	79.77	72.87	75.42	0.94
Fourth Quarter	89.84	74.00	88.48	0.94

**PERFORMANCE GRAPH**

Table 40 compares the total return performance for Park's common shares with the NYSE MKT Composite Index, the NASDAQ Bank Stocks Index and the SNL Financial Bank and Thrift Index for the five-year period from December 31, 2010 to December 31, 2015. The NYSE MKT Composite Index is a market capitalization-weighted index of the stocks listed on NYSE MKT. The NASDAQ Bank Stocks Index is comprised of all depository institutions, holding companies and other investment companies that are traded on The NASDAQ Global Select and Global Markets. Park considers a number of bank holding companies traded on The NASDAQ Global Select Market to be within our peer group. The SNL Financial Bank and Thrift Index is comprised of all publicly-traded bank and thrift stocks researched by SNL Financial.

The NYSE MKT Financial Stocks Index includes the stocks of banks, thrifts, finance companies and securities broker-dealers. Park believes that the NASDAQ Bank Stocks Index and the SNL Financial Bank and Thrift Index are more appropriate industry indices for Park to use for the five-year total return performance comparison.

The annual compound total return on Park's common shares for the past five years was a positive 10.1%. By comparison, the annual compound total returns for the past five years on the NYSE MKT Composite Index, the NASDAQ Bank Stocks Index and the SNL Financial Bank and Thrift Index were a positive 2.6%, a positive 11.4% and a positive 10.2%, respectively.



**Table 40 – Total Return Performance**

Index	PERIOD ENDING					
	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
Park National Corporation	100.00	95.37	100.19	138.71	151.50	161.72
NYSE MKT Composite	100.00	106.29	113.32	120.86	125.41	113.68
NASDAQ Bank Stocks	100.00	89.50	106.23	150.55	157.95	171.92
SNL Financial Bank and Thrift	100.00	77.76	104.42	142.97	159.60	162.83

# MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Shareholders  
Park National Corporation

The management of Park National Corporation (the "Corporation") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Corporation's internal control over financial reporting includes those policies and procedures that:

- a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation and its consolidated subsidiaries;
- b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Corporation and its consolidated subsidiaries are being made only in accordance with authorizations of management and directors of the Corporation; and
- c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets of the Corporation and its consolidated subsidiaries that could have a material effect on the financial statements.

The Corporation's internal control over financial reporting as it relates to the consolidated financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even an effective system of internal control over financial reporting will provide only reasonable assurance with respect to financial statement preparation.

With the participation of our Chairman of the Board, our Chief Executive Officer and President and our Chief Financial Officer, management evaluated the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2015, the end of the Corporation's fiscal year. In making this assessment, management used the criteria set forth for effective internal control over financial reporting by the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) 2013 *Internal Control – Integrated Framework*.

Based on our assessment under the criteria described in the preceding paragraph, management concluded that the Corporation maintained effective internal control over financial reporting as of December 31, 2015.

The Corporation's independent registered public accounting firm, Crowe Horwath LLP, has audited the Corporation's 2015 and 2014 consolidated financial statements included in this Annual Report and the Corporation's internal control over financial reporting as of December 31, 2015, and has issued their Report of Independent Registered Public Accounting Firm, which appears in this Annual Report.



C. Daniel DeLawder  
Chairman of the Board



David L. Trautman  
Chief Executive Officer and President



Brady T. Burt  
Chief Financial Officer, Secretary and Treasurer

February 18, 2016

**R E P O R T O F I N D E P E N D E N T  
R E G I S T E R E D P U B L I C A C C O U N T I N G F I R M**

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To the Board of Directors and Shareholders  
Park National Corporation  
Newark, Ohio

We have audited the accompanying consolidated balance sheets of Park National Corporation as of December 31, 2015 and 2014 and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2015. We also have audited Park National Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Park National Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Park National Corporation as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Park National Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 *Internal Control – Integrated Framework* issued by the COSO.

Crowe Horwath LLP



Columbus, Ohio  
February 18, 2016

**C O N S O L I D A T E D   B A L A N C E   S H E E T S**

**PARK NATIONAL CORPORATION AND SUBSIDIARIES**

at December 31, 2015 and 2014 (In thousands, except share and per share data)

<b>ASSETS</b>	<b>2015</b>	<b>2014</b>
Cash and due from banks	\$ 119,412	\$ 133,511
Money market instruments	30,047	104,188
<b>Cash and cash equivalents</b>	<b>149,459</b>	<b>237,699</b>
<b>Investment securities:</b>		
Securities available-for-sale, at fair value (amortized cost of \$1,436,714 and \$1,299,980 at December 31, 2015 and 2014, respectively)	1,436,266	1,301,915
Securities held-to-maturity, at amortized cost (fair value of \$151,428 and \$143,490 at December 31, 2015 and 2014, respectively)	149,302	140,562
Other investment securities	58,311	58,311
<b>Total investment securities</b>	<b>1,643,879</b>	<b>1,500,788</b>
<b>Total loans</b>	<b>5,068,085</b>	<b>4,829,682</b>
Allowance for loan losses	(56,494)	(54,352)
<b>Net loans</b>	<b>5,011,591</b>	<b>4,775,330</b>
<b>Other assets:</b>		
Bank owned life insurance	181,684	171,928
Prepaid assets	80,635	75,190
Goodwill	72,334	72,334
Premises and equipment, net	59,493	55,479
Affordable housing tax credit investments	51,247	48,911
Accrued interest receivable	18,675	17,677
Other real estate owned	18,651	22,605
Mortgage loan servicing rights	9,008	8,613
Other	14,698	14,645
<b>Total other assets</b>	<b>506,425</b>	<b>487,382</b>
<b>Total assets</b>	<b>\$7,311,354</b>	<b>\$7,001,199</b>

The accompanying notes are an integral part of the consolidated financial statements.



**PARK NATIONAL CORPORATION AND SUBSIDIARIES**

*at December 31, 2015 and 2014 (In thousands, except share and per share data)*

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	2015	2014
<b>Deposits:</b>		
Non-interest bearing	\$1,404,032	\$1,269,296
Interest bearing	3,943,610	3,858,704
<b>Total deposits</b>	<b>5,347,642</b>	<b>5,128,000</b>
Short-term borrowings	394,242	276,980
Long-term debt	738,105	786,602
Subordinated notes	45,000	45,000
<b>Total borrowings</b>	<b>1,177,347</b>	<b>1,108,582</b>
<b>Other liabilities:</b>		
Accrued interest payable	2,338	2,551
Unfunded commitments in affordable housing tax credit investments	20,311	16,629
Other	50,361	48,896
<b>Total other liabilities</b>	<b>73,010</b>	<b>68,076</b>
<b>Total liabilities</b>	<b>6,597,999</b>	<b>6,304,658</b>

**COMMITMENTS AND CONTINGENCIES**

<b>Shareholders' equity:</b>		
Preferred shares (200,000 shares authorized; no shares outstanding at December 31, 2015 and 2014)	—	—
Common shares, no par value (20,000,000 shares authorized; 16,150,854 and 16,150,888 shares issued at December 31, 2015 and 2014, respectively)	303,966	303,104
Accumulated other comprehensive loss, net	(15,643)	(13,608)
Retained earnings	507,505	484,484
Less: Treasury shares (820,039 and 758,489 shares at December 31, 2015 and 2014, respectively)	(82,473)	(77,439)
<b>Total shareholders' equity</b>	<b>713,355</b>	<b>696,541</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$7,311,354</b>	<b>\$7,001,199</b>

*The accompanying notes are an integral part of the consolidated financial statements.*

**C O N S O L I D A T E D   S T A T E M E N T S   O F   I N C O M E**

**PARK NATIONAL CORPORATION AND SUBSIDIARIES**

for the years ended December 31, 2015, 2014 and 2013 (In thousands, except per share data)

	2015	2014	2013
<b>Interest and dividend income:</b>			
Interest and fees on loans	<b>\$227,979</b>	\$227,644	\$225,538
Interest and dividends on:			
Obligations of U.S. Government, its agencies and other securities	<b>36,025</b>	36,981	36,686
Obligations of states and political subdivisions	<b>182</b>	3	45
Other interest income	<b>888</b>	515	678
<b>Total interest and dividend income</b>	<b>265,074</b>	265,143	262,947
<b>Interest expense:</b>			
Interest on deposits:			
Demand and savings deposits	<b>2,229</b>	1,677	1,773
Time deposits	<b>10,125</b>	9,323	11,235
Interest on short-term borrowings	<b>469</b>	517	544
Interest on long-term debt	<b>24,619</b>	28,582	28,370
<b>Total interest expense</b>	<b>37,442</b>	40,099	41,922
<b>Net interest income</b>	<b>227,632</b>	225,044	221,025
Provision for (recovery of) loan losses	<b>4,990</b>	(7,333)	3,415
<b>Net interest income after provision for (recovery of) loan losses</b>	<b>222,642</b>	232,377	217,610
<b>Other income:</b>			
Income from fiduciary activities	<b>20,195</b>	19,150	17,133
Service charges on deposit accounts	<b>14,751</b>	15,423	16,316
Other service income	<b>11,438</b>	10,459	12,913
Checkcard fee income	<b>14,561</b>	13,570	12,955
Bank owned life insurance income	<b>5,783</b>	4,861	5,041
ATM fees	<b>2,428</b>	2,467	2,632
Gain on sale of OREO, net	<b>1,604</b>	5,503	3,110
OREO valuation adjustments	<b>(1,592)</b>	(2,406)	(3,180)
Gain on commercial loans held for sale	<b>756</b>	1,867	—
Gain (loss) on sale of investment securities	<b>88</b>	(1,158)	—
Miscellaneous	<b>7,539</b>	5,813	6,357
<b>Total other income</b>	<b>\$ 77,551</b>	\$ 75,549	\$ 73,277

The accompanying notes are an integral part of the consolidated financial statements.

**PARK NATIONAL CORPORATION AND SUBSIDIARIES**

*for the years ended December 31, 2015, 2014 and 2013 (In thousands, except per share data)*

	2015	2014	2013
<b>Other expense:</b>			
Salaries	\$ 86,189	\$ 81,977	\$ 80,985
Employee benefits	21,296	19,991	19,313
Data processing fees	5,037	4,712	4,174
Professional fees and services	23,452	29,580	27,865
Occupancy expense	9,686	10,006	9,804
Furniture and equipment expense	11,806	11,571	11,249
Insurance	5,629	5,723	5,205
Marketing	3,983	4,371	3,790
Communication	5,130	5,268	5,790
State tax expense	3,566	2,290	3,702
OREO expense	1,446	2,063	2,731
Miscellaneous	9,394	9,958	6,907
<b>Total other expense</b>	<b>186,614</b>	<b>187,510</b>	<b>181,515</b>
<b>Income before income taxes</b>	<b>113,579</b>	<b>120,416</b>	<b>109,372</b>
Federal income taxes	32,567	36,459	32,503
<b>Net income</b>	<b>\$ 81,012</b>	<b>\$ 83,957</b>	<b>\$ 76,869</b>
<b>Earnings per common share:</b>			
<b>Basic</b>	<b>\$5.27</b>	<b>\$5.45</b>	<b>\$4.99</b>
<b>Diluted</b>	<b>\$5.26</b>	<b>\$5.45</b>	<b>\$4.99</b>

*The accompanying notes are an integral part of the consolidated financial statements.*

**C O N S O L I D A T E D   S T A T E M E N T S   O F**  
**C O M P R E H E N S I V E   I N C O M E**

**PARK NATIONAL CORPORATION AND SUBSIDIARIES**

for the years ended December 31, 2015, 2014 and 2013 (In thousands)

	2015	2014	2013
<b>Net income</b>	<b>\$81,012</b>	\$ 83,957	\$ 76,869
<b>Other comprehensive income (loss), net of tax:</b>			
Defined benefit pension plan:			
Amortization of net loss and prior service costs, net of income taxes of \$228, \$7 and \$953 for the years ended December 31, 2015, 2014 and 2013, respectively	424	12	1,770
Unrealized net actuarial (loss) gain, net of income taxes of \$(490), \$(4,997) and \$10,643 for the years ended December 31, 2015, 2014 and 2013, respectively	(910)	(9,279)	19,766
Change in funded status of pension plan, net of income taxes	(486)	(9,267)	21,536
Securities available-for-sale:			
Net loss realized on sale of securities, net of income taxes of \$405 for the year ended December 31, 2014	—	753	—
Other than temporary impairment realized on securities, net of income taxes of \$6 for the year ended December 31, 2013	—	—	11
Change in unrealized securities holding (loss) gain, net of income taxes of \$(834), \$16,329 and \$(21,242) for the years ended December 31, 2015, 2014 and 2013, respectively	(1,549)	30,325	(39,448)
Unrealized net holding (loss) gain on securities available-for-sale, net of income taxes	(1,549)	31,078	(39,437)
<b>Other comprehensive (loss) income</b>	<b>\$ (2,035)</b>	\$ 21,811	\$(17,901)
<b>Comprehensive income</b>	<b>\$78,977</b>	\$105,768	\$ 58,968

The accompanying notes are an integral part of the consolidated financial statements.

**C O N S O L I D A T E D   S T A T E M E N T S   O F**  
**C H A N G E S   I N   S H A R E H O L D E R S '   E Q U I T Y**

**PARK NATIONAL CORPORATION AND SUBSIDIARIES**

*for the years ended December 31, 2015, 2014 and 2013 (In thousands, except share and per share data)*

	Preferred Shares		Common Shares		Retained Earnings	Treasury Shares	Accumulated Other Comprehensive (Loss) Income	Total
	Shares Outstanding	Amount	Shares Outstanding	Amount				
Balance, January 1, 2013, as previously presented	—	\$ —	15,411,998	\$302,654	\$441,605	\$ (76,375)	\$ (17,518)	\$650,366
Cumulative effect of change in accounting principle for affordable housing tax credits, net of tax			—	—	(1,566)	—	—	(1,566)
Balance, January 1, 2013, as adjusted	—	\$ —	15,411,998	\$302,654	\$440,039	\$ (76,375)	\$ (17,518)	\$648,800
Net income			—	—	76,869	—	—	76,869
Other comprehensive loss, net of tax							(17,901)	(17,901)
Cash dividends, \$3.76 per share			—	—	(57,949)	—	—	(57,949)
Cash payment for fractional shares in dividend reinvestment plan			(46)	(3)	—	—	—	(3)
Treasury shares repurchased			(10,550)			(843)		(843)
Treasury shares reissued for director grants			10,550		(240)	1,090		850
Balance, December 31, 2013	—	\$ —	15,411,952	\$302,651	\$458,719	\$ (76,128)	\$ (35,419)	\$649,823
Net income			—	—	83,957	—	—	83,957
Other comprehensive income, net of tax							21,811	21,811
Cash dividends, \$3.76 per share			—	—	(57,949)	—	—	(57,949)
Cash payment for fractional shares in dividend reinvestment plan			(53)	(5)	—	—	—	(5)
Share-based compensation expense				458				458
Treasury shares repurchased			(29,700)			(2,355)		(2,355)
Treasury shares reissued for director grants			10,200		(243)	1,044		801
Balance, December 31, 2014	—	\$ —	15,392,399	\$303,104	\$484,484	\$ (77,439)	\$ (13,608)	\$696,541
Net income			—	—	81,012	—	—	81,012
Other comprehensive loss, net of tax							(2,035)	(2,035)
Cash dividends, \$3.76 per share			—	—	(57,930)	—	—	(57,930)
Cash payment for fractional shares in dividend reinvestment plan			(34)	(3)	—	—	—	(3)
Share-based compensation expense				865				865
Treasury shares repurchased			(71,700)			(6,058)		(6,058)
Treasury shares reissued for director grants			10,150		(61)	1,024		963
Balance, December 31, 2015	—	\$ —	15,330,815	\$303,966	\$507,505	\$ (82,473)	\$ (15,643)	\$713,355

*The accompanying notes are an integral part of the consolidated financial statements.*

**C O N S O L I D A T E D   S T A T E M E N T S**  
**O F   C A S H   F L O W S**

**PARK NATIONAL CORPORATION AND SUBSIDIARIES**

for the years ended December 31, 2015, 2014 and 2013 (In thousands)

	2015	2014	2013
<b>Operating activities:</b>			
Net income	\$ 81,012	\$ 83,957	\$ 76,869
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for (recovery of) loan losses	4,990	(7,333)	3,415
Amortization of loan fees and costs, net	6,440	4,160	3,611
Provision for depreciation	7,347	7,243	7,315
Other than temporary impairment on investment securities	—	—	17
Amortization of intangible assets	—	—	337
Accretion of investment securities, net	(226)	(213)	(33)
Amortization of prepayment penalty on long-term debt	6,047	5,031	4,835
Deferred income tax	(250)	2,528	(1,932)
Realized net investment security (gains) losses	(88)	1,158	—
Share-based compensation expense	1,828	1,259	850
Loan originations to be sold in secondary market	(220,800)	(136,125)	(317,534)
Proceeds from sale of loans in secondary market	222,785	135,209	345,704
Gain on sale of loans in secondary market	(4,027)	(2,682)	(4,093)
Gain on sale of commercial loans held for sale	(756)	(1,867)	—
OREO valuation adjustments	1,592	2,406	3,180
Gain on sale of OREO, net	(1,604)	(5,503)	(3,110)
Bank owned life insurance income	(5,783)	(4,861)	(5,041)
Changes in assets and liabilities:			
(Increase) Decrease in other assets	(10,978)	(18,313)	12,222
Decrease (Increase) in other liabilities	1,173	5,689	(5,324)
<b>Net cash provided by operating activities</b>	<b>88,702</b>	<b>71,743</b>	<b>121,288</b>

The accompanying notes are an integral part of the consolidated financial statements.

**C O N S O L I D A T E D   S T A T E M E N T S**  
**O F   C A S H   F L O W S**

(CONTINUED)

**PARK NATIONAL CORPORATION AND SUBSIDIARIES**

for the years ended December 31, 2015, 2014 and 2013 (In thousands)

	2015	2014	2013
<b>Investing activities:</b>			
Proceeds from redemption of Federal Home Loan Bank stock	\$ —	\$ 8,946	\$ —
Proceeds from sales of securities	3,144	173,123	75,000
Proceeds from calls and maturities of securities:			
Held-to-maturity	36,393	41,436	219,329
Available-for-sale	321,146	99,092	385,259
Purchase of securities:			
Held-to-maturity	(48,226)	—	—
Available-for-sale	(457,617)	(350,934)	(582,728)
Net increase in other investments	—	(1,350)	—
Net loan originations, portfolio loans	(247,882)	(234,017)	(212,311)
Proceeds from sale of commercial loans held for sale	900	20,966	—
Proceeds from the sale of OREO	17,058	27,798	23,043
Life insurance death benefits	6,340	2,221	1,430
Investment in qualified affordable housing projects	(5,318)	(9,417)	(8,222)
Purchases of bank owned life insurance, net	(10,045)	—	(4,600)
Purchases of premises and equipment, net	(11,361)	(7,444)	(8,842)
<b>Net cash used in investing activities</b>	<b>(395,468)</b>	<b>(229,580)</b>	<b>(112,642)</b>
<b>Financing activities:</b>			
Net increase in deposits	219,642	338,006	73,962
Net increase (decrease) in short-term borrowings	117,262	34,951	(102,139)
Proceeds from issuance of long-term debt	25,000	125,000	75,000
Repayment of subordinated notes	—	(35,250)	—
Repayment of long-term debt	(79,544)	(153,970)	(50,952)
Repurchase of treasury shares	(6,058)	(2,355)	(843)
Cash dividends paid	(57,776)	(57,876)	(57,949)
<b>Net cash provided by (used in) financing activities</b>	<b>218,526</b>	<b>248,506</b>	<b>(62,921)</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(88,240)</b>	<b>90,669</b>	<b>(54,275)</b>
Cash and cash equivalents at beginning of year	237,699	147,030	201,305
<b>Cash and cash equivalents at end of year</b>	<b>\$ 149,459</b>	<b>\$ 237,699</b>	<b>\$ 147,030</b>
Cash paid for:			
Interest	\$ 37,655	\$ 40,449	\$ 42,481
Income taxes	\$ 26,140	\$ 27,810	\$ 20,000
Non cash items:			
Loans transferred to OREO	\$ 13,447	\$ 12,780	\$ 22,144
Transfers from loans to commercial loans held for sale	\$ 144	\$ 21,985	\$ —
New commitments in affordable housing tax credit investments	\$ 9,000	\$ 8,000	\$ 7,000

The accompanying notes are an integral part of the consolidated financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements:

### Principles of Consolidation

The consolidated financial statements include the accounts of Park National Corporation and its subsidiaries ("Park", the "Company" or the "Corporation"). Material intercompany accounts and transactions have been eliminated.

### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Management has identified the allowance for loan losses, accounting for Other Real Estate Owned ("OREO"), fair value accounting, accounting for goodwill and accounting for pension plan and other post-retirement benefits as significant estimates.

### Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation. Additionally, prior period financial statements reflect the retrospective application of Accounting Standards Update ("ASU") 2014-01, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*.

### Restrictions on Cash and Due from Banks

The Corporation's national bank subsidiary is required to maintain average reserve balances with the Federal Reserve Bank. The average required reserve balance was approximately \$44.2 million at December 31, 2015 and \$40.3 million at December 31, 2014. No other compensating balance arrangements were in existence at December 31, 2015.

### Investment Securities

Investment securities are classified upon acquisition into one of three categories: held-to-maturity ("HTM"), available-for-sale ("AFS"), or trading (see Note 5 – Investment Securities).

HTM securities are those securities that the Corporation has the positive intent and ability to hold to maturity and are recorded at amortized cost. AFS securities are those securities that would be available to be sold in the future in response to the Corporation's liquidity needs, changes in market interest rates, and asset-liability management strategies, among other reasons. AFS securities are reported at fair value, with unrealized holding gains and losses excluded from earnings but included in other comprehensive income (loss), net of applicable taxes. The Corporation did not hold any trading securities during any period presented.

AFS and HTM securities are evaluated quarterly for potential other-than-temporary impairment. Management considers the facts related to each security including the nature of the security, the amount and duration of the loss, the credit quality of the issuer, the expectations for that security's performance and whether Park intends to sell, or it is more likely than not that Park will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. Declines in the value of equity securities that are considered to be other-than-temporary are recorded as a charge to earnings in the Consolidated Statements of Income. Declines in the value of debt securities that are considered to be other-than-temporary are separated into (1) the amount of the total impairment related to credit loss and (2) the amount of the total impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income (loss), net of tax.

Interest income from investment securities includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated.

Gains and losses realized on the sale of investment securities are recorded on the trade date and determined using the specific identification basis.

### Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) Stock

Park's national bank subsidiary, The Park National Bank ("PNB") is a member of the FHLB. Additionally, PNB is a member of the FRB. Members are required to own a certain amount of stock based on their level of borrowings and other factors and may invest in additional amounts. FHLB stock and FRB stock are classified as restricted securities and are carried at their redemption value within other investment securities on the Consolidated Balance Sheets. Impairment is evaluated based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

### Bank Owned Life Insurance

Park has purchased insurance policies on the lives of directors and certain key officers. Bank owned life insurance is recorded at its cash surrender value (or the amount that can be realized).

### Loans Held for Sale

Generally, loans held for sale are carried at the lower of cost or fair value. Park has elected the fair value option for mortgage loans held for sale, which are carried at their fair value.

### Mortgage Banking Derivatives

Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free standing derivatives. The fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest rate on the loan is locked. The Company enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into, in order to hedge the change in interest rates resulting from its commitments to fund the loans. Changes in the fair values of these derivatives are included in net gains on sale of loans.

### Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff, are reported at their outstanding principal balances adjusted for any charge-offs, any deferred fees or costs on originated loans, and any unamortized premiums or discounts on purchased loans. Interest income is reported on the interest method and includes amortization of net deferred loan origination fees and costs over the loan term. Commercial loans include: (1) commercial, financial and agricultural loans; (2) commercial real estate loans; (3) those commercial loans in the real estate construction loan segment; and (4) those commercial loans in the residential real estate loan segment. Consumer loans include: (1) mortgage and installment loans included in the real estate construction segment; (2) mortgage, home equity lines of credit (HELOC), and installment loans included in the residential real estate segment; and (3) all loans included in the consumer segment.

Generally, commercial loans are placed on nonaccrual status at 90 days past due and consumer and residential mortgage loans are placed on nonaccrual status at 120 days past due. Commercial loans placed on nonaccrual status are considered impaired (see Note 6 –Loans). For loans which are on non-accrual status, it is Park's policy to reverse interest previously accrued on the loans against interest income. Interest on such loans may be recorded on a cash basis and be included in earnings only when cash is actually received. Park's charge-off policy for commercial loans requires management to establish a specific reserve or record a charge-off as soon as it is apparent that the borrower is troubled and there is, or likely will be, a collateral shortfall related to



the estimated value of the collateral securing the loan. The Company's charge-off policy for consumer loans is dependent on the class of the loan. Residential mortgage loans, HELOCs, and consumer loans secured by residential real estate are typically charged down to the value of the collateral, less estimated selling costs, at 180 days past due. The charge-off policy for other consumer loans, primarily installment loans, requires a monthly review of delinquent loans and a complete charge-off for any account that reaches 120 days past due.

The delinquency status of a loan is based on contractual terms and not on how recently payments have been received. Loans may be removed from nonaccrual status when loan payments have been received to cure the delinquency status, the borrower has demonstrated the ability to maintain current payment status in accordance with the loan agreement and the loan is deemed to be well-secured by management.

A description of each segment of the loan portfolio, along with the risk characteristics of each segment, is included below:

**Commercial, financial and agricultural:** Commercial, financial and agricultural loans are made for a wide variety of general corporate purposes, including financing for commercial and industrial businesses, financing for equipment, inventories and accounts receivable, acquisition financing and commercial leasing. The term of each commercial loan varies by its purpose. Repayment terms are structured such that commercial loans will be repaid within the economic useful life of the underlying asset. The commercial loan portfolio includes loans to a wide variety of corporations and businesses across many industrial classifications originated in the 28 Ohio counties where PNB operates. The primary industries represented by these customers include manufacturing, retail trade, health care and other services.

**Commercial real estate:** Commercial real estate ("CRE") loans include mortgage loans to developers and owners of commercial real estate. The lending policy for CRE loans is designed to address the unique risk attributes of CRE lending. The collateral for these CRE loans is the underlying commercial real estate.

**Construction real estate:** The Company defines construction loans as both commercial construction loans and residential construction loans where the loan proceeds are used exclusively for the improvement of real estate as to which the Company holds a mortgage. Construction loans may be in the form of a permanent loan or short-term construction loan, depending on the needs of the individual borrower. Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost (including interest) of construction. If the estimate of construction cost proves to be inaccurate, the PNB division making the loan may be required to advance funds beyond the amount originally committed to permit completion of the project. If the estimate of value proves inaccurate, the PNB division may be confronted, at or prior to the maturity of the loan, with a project having a value insufficient to assure full repayment, should the borrower default. In the event that a default on a construction loan occurs and foreclosure follows, the PNB division must take control of the project and attempt to either arrange for completion of construction or dispose of the unfinished project. Additional risk exists with respect to loans made to developers who do not have a buyer for the property, as the developer may lack funds to pay the loan if the property is not sold upon completion. PNB and its divisions attempt to reduce such risks on loans to developers by requiring personal guarantees and reviewing current personal financial statements and tax returns as well as other projects undertaken by the developer.

**Residential real estate:** The Company defines residential real estate loans as first mortgages on individuals' primary residences or second mortgages of individuals' primary residences in the form of HELOCs or installment loans. Credit approval for residential real estate loans requires demonstration of sufficient income to repay the principal and interest and the real estate taxes and insurance, stability of employment, an established credit record and an appraised value of the real estate securing the loan.

**Consumer:** The Company originates direct and indirect consumer loans, primarily automobile loans and home equity based lines of credit to customers in its primary market areas. Credit approval for consumer loans requires income sufficient to repay principal and interest due, stability of employment, an established credit record and sufficient collateral for secured loans. Consumer loans typically have shorter terms and lower balances with higher yields as compared to real estate mortgage loans, but generally carry higher risks of default. Consumer loan collections are dependent on the borrower's financial stability, and thus are more likely to be affected by adverse personal circumstances.

**Allowance for Loan Losses**

The allowance for loan losses is that amount believed adequate to absorb probable incurred credit losses in the loan portfolio based on management's evaluation of various factors. The determination of the allowance requires significant estimates, including the timing and amounts of expected cash flows on impaired loans, consideration of current economic conditions, and historical loss experience pertaining to pools of homogeneous loans, all of which may be susceptible to change. The allowance is increased through a provision for loan losses that is charged to earnings based on management's quarterly evaluation of the factors previously mentioned and is reduced by charge-offs, net of recoveries.

The allowance for loan losses includes both (1) an estimate of loss based on historical loss experience within both commercial and consumer loan categories with similar characteristics ("statistical allocation") and (2) an estimate of loss based on an impairment analysis of each commercial loan that is considered to be impaired ("specific allocation").

In calculating the allowance for loan losses, management believes it is appropriate to utilize historical loss rates that are comparable to the current period being analyzed, giving consideration to losses experienced over a full cycle. For the historical loss factor at December 31, 2015, the Company utilized an annual loss rate ("historical loss experience"), calculated based on an average of the net charge-offs and the annual change in specific reserves for impaired commercial loans, experienced during 2009 through 2015 within the individual segments of the commercial and consumer loan categories. Management believes the 84-month historical loss experience methodology is appropriate in the current economic environment, as it captures loss rates consistent with current expectations based on current economic conditions. The loss factor applied to Park's consumer portfolio as of December 31, 2015 was based on the historical loss experience over the past 84 months, plus an additional judgmental reserve, increasing the total allowance for loan loss coverage in the consumer portfolio to approximately 1.99 years of historical loss. The consumer loan portfolio loss coverage ratio was 1.98 years at December 31, 2014. The loss factor applied to Park's commercial portfolio as of December 31, 2015 was based on the historical loss experience over the past 84 months, plus additional reserves for consideration of (1) a loss emergence period factor, (2) a loss migration factor and (3) a judgmental or environmental loss factor. These additional reserves increased the total allowance for loan loss coverage in the commercial portfolio to approximately 2.52 years of historical loss at December 31, 2015. The commercial loan portfolio loss coverage ratio was 2.28 years at December 31, 2014. 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.

The judgmental increases discussed above incorporate management's evaluation of the impact of environmental qualitative factors which pose additional risks and assign a component of the allowance for loan losses in consideration of these factors. Such environmental factors include: national and local economic trends and conditions; experience, ability and depth of lending management and staff; effects of any changes in lending policies and procedures; and levels of, and trends in, consumer bankruptcies, delinquencies, impaired loans and charge-offs and recoveries.

GAAP requires a specific allocation to be established as a component of the allowance for loan losses for certain loans when it is probable that all amounts due pursuant to the contractual terms of the loans will not be collected, and the recorded investment in the loans exceeds their measure of impairment. Management considers the following related to commercial loans when determining if a loan should be considered impaired: (1) current debt service coverage levels of the borrowing entity; (2) payment history over the most recent 12-month period; (3) other signs of deterioration in the borrower's financial situation, such as changes in credit scores; and (4) consideration of global cash flows of financially sound guarantors that have previously supported loan payments. The recorded investment is the carrying balance of the loan, plus accrued interest receivable, both as of the end of the year. Impairment is measured using either the present value of expected future cash flows based upon the initial effective interest rate on the loan, or the fair value of the collateral. If a loan is considered to be collateral dependent, the fair value of collateral, less estimated selling costs, is used to measure impairment.

**Troubled Debt Restructuring ("TDRs")**

Management classifies loans as TDRs when a borrower is experiencing financial difficulty and Park has granted a concession. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of the borrower's debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy. Management's policy is to modify loans by extending the term or by granting a temporary or permanent contractual interest rate below the market rate, not by forgiving debt. 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. TDRs are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral.

**Income Recognition**

Income earned by the Corporation and its subsidiaries is recognized on the accrual basis of accounting, except for nonaccrual loans as previously discussed, and late charges on loans which are recognized as income when they are collected.

**Premises and Equipment**

Land is carried at cost and is not subject to depreciation. Premises and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is generally provided on the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the remaining lease period or the estimated useful lives of the improvements. Upon the sale or other disposal of an asset, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized. Maintenance and repairs are charged to expense as incurred while renewals and improvements that extend the useful life of an asset are capitalized. Premises and equipment are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of a particular asset may not be recoverable.

The range of depreciable lives over which premises and equipment are being depreciated are:

Buildings	30 Years
Equipment, furniture and fixtures	3 to 12 Years
Leasehold improvements	1 to 10 Years

**Other Real Estate Owned**

Management transfers a loan to OREO at the time that Park takes deed/title of the asset. OREO is initially recorded at fair value less anticipated selling costs (net realizable value), establishing a new cost basis, and consists of property acquired through foreclosure and real estate held for sale. If the net realizable value is below the carrying value of the loan at the date of transfer, the difference is charged to the allowance for loan losses. These assets are subsequently accounted for at the lower of cost or fair value less costs to sell. Subsequent changes in the value of real estate are classified as OREO valuation adjustments, are reported as adjustments to the carrying amount of OREO and are recorded within "Other income." In certain circumstances where management believes the devaluation may not be permanent in nature, Park utilizes a valuation allowance to record OREO devaluations, which is also expensed through "Other income." Costs relating to development and improvement of such properties are capitalized (not in excess of fair value less estimated costs to sell) and costs relating to holding the properties are charged to "Other expense."

**Mortgage Servicing Rights ("MSR")**

When Park sells mortgage loans with servicing rights retained, servicing rights are recorded at an amount not to exceed fair value with the income statement effect recorded in "Other service income." Capitalized servicing rights are amortized in proportion to and over the period of the estimated future servicing income of the underlying loan and are included within "Other service income."

Mortgage servicing rights are assessed for impairment periodically, based on fair value, with any impairment recognized through a valuation allowance. The fair value of mortgage servicing rights is determined by discounting estimated future cash flows from the servicing assets, using market discount rates and expected future prepayment rates. In order to calculate fair value, the sold loan portfolio is stratified into homogeneous pools of like categories. (See Note 24 – Loan Servicing.)

Fees received for servicing mortgage loans owned by investors are based on a percentage of the outstanding monthly principal balance of such loans and are included in income as loan payments are received. The cost of servicing loans is charged to expense as incurred.

**Goodwill**

Goodwill represents the excess of the purchase price over net identifiable tangible and intangible assets acquired in a purchase business combination. Other intangible assets represent purchased assets that have no physical property but represent some future economic benefit to their owner and are capable of being sold or exchanged on their own or in combination with a related asset or liability.

Goodwill and indefinite-lived intangible assets are not amortized to expense, but are subject to impairment tests annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Intangible assets with definitive useful lives (such as core deposit intangibles) are amortized to expense over their estimated useful lives.

Management considers several factors when performing the annual impairment tests on goodwill. The factors considered include the operating results for the particular Park segment for the past year and the operating results budgeted for the current year (including multi-year projections), the deposit and loan totals of the Park segment and the economic conditions in the markets served by the Park segment. At December 31, 2015, the goodwill remaining on Park's Consolidated Balance Sheet consisted entirely of goodwill at PNB. (See Note 27 – Segment Information for operating segment results.)

GAAP requires a company to perform an impairment test on goodwill annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired, by assessing qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing these events or circumstances, it is concluded that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. If the carrying amount of the goodwill exceeds the fair value, an impairment charge must be recorded in an amount equal to the excess.

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, 2015, 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.

#### **Consolidated Statement of Cash Flows**

Cash and cash equivalents include cash and cash items, amounts due from banks and money market instruments. Generally, money market instruments are purchased and sold for one-day periods.

#### **Loss Contingencies and Guarantees**

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

#### **Income Taxes**

The Corporation accounts for income taxes using the asset and liability approach. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. To the extent that Park does not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is recorded. All positive and negative evidence is reviewed when determining how much of a valuation allowance is recognized on a quarterly basis. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

An uncertain tax position is recognized as a benefit only if it is "more-likely-than-not" that the tax position would be sustained in a tax examination being presumed to occur. The benefit recognized for a tax position that meets the "more-likely-than-not" criteria is measured based on the largest benefit that is more than 50 percent likely to be realized, taking into consideration the amounts and probabilities of the outcome upon settlement. For tax positions not meeting the "more-likely-than-not" test, no tax benefit is recorded. Park recognizes any interest and penalties related to income tax matters in income tax expense.

#### **Treasury Shares**

The purchase of Park's common shares is recorded at cost. At the date of retirement or subsequent reissuance, the treasury shares account is reduced by the weighted average cost of the common shares retired or reissued.

#### **Comprehensive Income**

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, and changes in the funded status of the Company's defined benefit pension plan, which are also recognized as separate components of equity.

#### **Share-Based Compensation**

Compensation cost is recognized for restricted stock units and stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. The market price of Park's common shares at the date of grant is used to estimate the fair value of restricted stock units and stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period and is recorded in "Salaries" expense. (See Note 17 – Share-Based Compensation.)

#### **Loan Commitments and Related Financial Instruments**

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

#### **Fair Value Measurement**

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 25 – Fair Value. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

#### **Transfers of Financial Assets**

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

#### **Retirement Plans**

Pension expense is the net of service and interest cost, return on plan assets and amortization of gains and losses not immediately recognized. Employee KSOP plan expense is the amount of matching contributions to Park's employees stock ownership plan. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service. (See Note 18 – Benefit Plans.)

#### **Earnings Per Common Share**

Basic earnings per common share is net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock awards, stock options, warrants and convertible securities. Earnings and dividends per common share are restated for any stock splits and stock dividends through the date of issuance of the consolidated financial statements. (See Note 21 – Earnings Per Common Share.)

#### **Operating Segments**

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").

## 2. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

### ASU 2014-01 – Investments—Equity Method and Joint Ventures

**(Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force):** In January 2014, the Financial Accounting Standards Board (the “FASB”) issued ASU 2014-01, *Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)*. The ASU permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. Additionally, a reporting entity should disclose information that enables users of its financial statements to understand the nature of its investments in qualified affordable housing projects, and the effect of the measurement of its investments in qualified affordable housing projects and the related tax credits on its financial position and results of operations. The new guidance became effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. Park adopted this guidance in the first quarter of 2015. The guidance was applied retrospectively to all prior periods presented. The adoption resulted in adjustments to reduce beginning retained earnings, other assets and the prior periods consolidated statements of income. See Note 11 – Investment in Qualified Affordable Housing for further details.

### ASU 2014-04 – Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force):

In January 2014, FASB issued ASU 2014-04, *Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)*. This new ASU clarifies when an in substance repossession or foreclosure occurs and a creditor is considered to have received physical possession of real estate property collateralizing a consumer mortgage loan. Specifically, the new ASU requires a creditor to reclassify a collateralized consumer mortgage loan to real estate property upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. Additional disclosures are required detailing the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgages collateralized by real estate property that are in the process of foreclosure. The new guidance is effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The adoption of this guidance as of January 1, 2015 did not have a material impact on Park’s consolidated financial statements, but resulted in additional disclosures. See Note 9 – Other Real Estate Owned.

### ASU 2014-09 – Revenue from Contracts with Customers (Topic 606):

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU creates a new topic, Topic 606, to provide guidance on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures are required to provide quantitative and qualitative information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning

after December 15, 2017. Management is currently evaluating the impact of the adoption of this guidance on Park’s consolidated financial statements.

### ASU 2014-11 – Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures:

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. The amendments in this ASU change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments also require two new disclosures. The first disclosure requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. The second disclosure provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The accounting changes are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, with all other disclosure requirements required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The adoption of this guidance as of January 1, 2015 did not have an impact on Park’s consolidated financial statements, but resulted in additional disclosures. See Note 13 – Repurchase Agreement Borrowings.

### ASU 2015-02 – Consolidation (Topic 810): Amendments to the

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

### 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 to the current GAAP model primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale securities. The new guidance is effective for annual reporting period and interim reporting periods within those annual periods, beginning after December 15, 2017. Management is currently evaluating the impact of the adoption of this guidance on Park’s consolidated financial statements.

## 3. ORGANIZATION

Park National Corporation is a financial holding company headquartered in Newark, Ohio. Through its national bank subsidiary, PNB, Park is engaged in a general commercial banking and trust business, primarily in Ohio. PNB operates through eleven banking divisions with the Park National Bank Division headquartered in Newark, Ohio, the Fairfield National Bank Division headquartered in Lancaster, Ohio, The Park National Bank of Southwest Ohio & Northern Kentucky Division headquartered in Cincinnati, Ohio, the First-Knox National Bank Division headquartered in Mount Vernon, Ohio, the Farmers Bank Division headquartered in Loudonville, Ohio, the Security National Bank Division headquartered in Springfield, Ohio, the Unity National Bank Division headquartered in Piqua, Ohio, the Richland Bank Division headquartered in Mansfield, Ohio, the Century National Bank Division headquartered in Zanesville, Ohio, the United Bank, N.A. Division headquartered in Bucyrus,

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Ohio and the Second National Bank Division headquartered in Greenville, Ohio. A wholly-owned subsidiary of Park, GFSC is a consumer finance company located in Central Ohio.

Through February 16, 2012, Park operated a second banking subsidiary, Vision Bank ("Vision"), which was engaged in a general commercial banking business, primarily in Baldwin County, Alabama and the panhandle of Florida. Vision operated through two banking divisions with the Vision Bank Florida Division headquartered in Panama City, Florida and the Vision Bank Alabama Division headquartered in Gulf Shores, Alabama. Promptly following the sale of the Vision business to Centennial Bank (a wholly-owned subsidiary of HomeBanc Shares, Inc.), Vision surrendered its Florida banking charter to the Florida Office of Financial Regulation and became a non-bank Florida corporation. Vision (the Florida corporation) merged with and into a wholly-owned, non-bank subsidiary of Park, SEPH, with SEPH being the surviving entity. SEPH holds the remaining assets and liabilities retained by Vision subsequent to the sale. SEPH also holds OREO that had previously been transferred to SEPH from Vision. SEPH's assets consist primarily of performing and nonperforming loans and OREO. This segment represents a run off portfolio of the legacy Vision assets.

All of the Ohio-based banking divisions provide the following principal services: the acceptance of deposits for demand, savings and time accounts; commercial, industrial, consumer and real estate lending, including installment loans, credit cards, home equity lines of credit; trust services; cash management; safe deposit operations; electronic funds transfers and a variety of additional banking-related services. See Note 27 – Segment Information for financial information on the Corporation's operating segments.

#### 4. GOODWILL

The following table reflects the activity in goodwill and other intangible assets for the years ended December 31, 2015, 2014 and 2013.

(In thousands)	Goodwill	Core Deposit Intangibles	Total
January 1, 2013	\$ 72,334	\$ 337	\$ 72,671
Amortization	—	(337)	(337)
December 31, 2013	\$ 72,334	\$ —	\$ 72,334
Amortization	—	—	—
<b>December 31, 2014</b>	<b>\$ 72,334</b>	<b>\$ —</b>	<b>\$ 72,334</b>
Amortization	—	—	—
<b>December 31, 2015</b>	<b>\$ 72,334</b>	<b>\$ —</b>	<b>\$ 72,334</b>

The core deposit intangibles were amortized to expense principally on the straight-line method, over a period of six years. Core deposit intangibles were fully amortized at December 31, 2013, and thus there was no amortization expense in 2014 or 2015. Core deposit intangible amortization expense was \$337,000 in 2013.

#### 5. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities are shown in the following table. Management performs a quarterly evaluation of investment securities for any other-than-temporary impairment. During 2015 and 2014, there were no investment securities deemed to be other-than-temporarily impaired. During 2013, Park recognized other-than-temporary impairment charges of \$17,000, related to an equity investment in a financial institution.

Investment securities at December 31, 2015 and December 31, 2014 were as follows:

(In thousands)	Amortized Cost	Gross Unrealized/Unrecognized Holding Gains	Gross Unrealized/Unrecognized Holding Losses	Estimated Fair Value
<b>2015:</b>				
<b>Securities Available-for-Sale</b>				
Obligations of U.S. Treasury and other U.S. Government sponsored entities	\$ 527,605	\$ —	\$ 5,542	\$ 522,063
U.S. Government sponsored entities' asset-backed securities	907,989	8,776	5,272	911,493
Other equity securities	1,120	1,590	—	2,710
<b>Total</b>	<b>\$1,436,714</b>	<b>\$10,366</b>	<b>\$10,814</b>	<b>\$1,436,266</b>
<b>2015:</b>				
<b>Securities Held-to-Maturity</b>				
Obligations of states and political subdivisions	\$ 48,190	\$ 734	\$ —	\$ 48,924
U.S. Government sponsored entities' asset-backed securities	101,112	1,526	134	102,504
<b>Total</b>	<b>\$ 149,302</b>	<b>\$ 2,260</b>	<b>\$ 134</b>	<b>\$ 151,428</b>
<b>2014:</b>				
<b>Securities Available-for-Sale</b>				
Obligations of U.S. Treasury and other U.S. Government sponsored entities	\$ 546,886	\$ 11	\$ 8,833	\$ 538,064
U.S. Government sponsored entities' asset-backed securities	751,974	13,421	4,242	761,153
Other equity securities	1,120	1,578	—	2,698
<b>Total</b>	<b>\$1,299,980</b>	<b>\$15,010</b>	<b>\$13,075</b>	<b>\$1,301,915</b>
<b>2014:</b>				
<b>Securities Held-to-Maturity</b>				
U.S. Government sponsored entities' asset-backed securities	\$ 140,562	\$ 3,088	\$ 160	\$ 143,490
<b>Total</b>	<b>\$ 140,562</b>	<b>\$ 3,088</b>	<b>\$ 160</b>	<b>\$ 143,490</b>

Park's U.S. Government sponsored entities' asset-backed securities consisted of 15-year mortgage-backed securities and collateralized mortgage obligations (CMOs). At December 31, 2015, the amortized cost of Park's available-for-sale mortgage-backed securities was \$569.0 million and there were no held-to-maturity mortgage-backed securities within Park's investment portfolio. At December 31, 2015, the amortized cost of Park's available-for-sale and held-to-maturity CMOs was \$339.0 million and \$101.1 million, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides detail on investment securities with unrealized losses aggregated by investment category and length of time the individual securities had been in a continuous loss position at December 31, 2015 and December 31, 2014:

(In thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>2015:</b>						
<b>Securities Available-for-Sale</b>						
Obligations of U.S. Treasury and other U.S. Government sponsored entities	\$326,973	\$2,117	\$195,090	\$3,425	\$522,063	\$5,542
U.S. Government sponsored entities' asset-backed securities	384,169	2,776	114,543	2,496	498,712	5,272
<b>Total</b>	<b>\$711,142</b>	<b>\$4,893</b>	<b>\$309,633</b>	<b>\$5,921</b>	<b>\$1,020,775</b>	<b>\$10,814</b>
<b>2015:</b>						
<b>Securities Held-to-Maturity</b>						
U.S. Government sponsored entities' asset-backed securities	\$5,656	\$10	\$7,792	\$124	\$13,448	\$134
<b>2014:</b>						
<b>Securities Available-for-Sale</b>						
Obligations of U.S. Treasury and other U.S. Government sponsored entities	\$119,913	\$87	\$388,140	\$8,746	\$508,053	\$8,833
U.S. Government sponsored entities' asset-backed securities	73,276	136	170,430	4,106	243,706	4,242
<b>Total</b>	<b>\$193,189</b>	<b>\$223</b>	<b>\$558,570</b>	<b>\$12,852</b>	<b>\$751,759</b>	<b>\$13,075</b>
<b>2014:</b>						
<b>Securities Held-to-Maturity</b>						
U.S. Government sponsored entities' asset-backed securities	\$8,032	\$148	\$2,714	\$12	\$10,746	\$160

Management does not believe any individual unrealized loss as of December 31, 2015 or 2014 represented an other-than-temporary impairment. The unrealized losses on debt securities are primarily the result of interest rate changes. These conditions will not prohibit Park from receiving its contractual principal and interest payments on these debt securities. The fair value of these debt securities is expected to recover as payments are received on these securities and they approach maturity. 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 in net income in the period the other-than-temporary impairment is identified.

Other investment securities (as shown on the Consolidated Balance Sheets) consist of stock investments in the FHLB and the FRB. These restricted stock investments are carried at their redemption value. Park owned \$50.1 million of FHLB stock and \$8.2 million of FRB stock at both December 31, 2015 and December 31, 2014, respectively.

The amortized cost and estimated fair value of investments in debt securities at December 31, 2015, 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 in principal repayments.

(In thousands)	Amortized Cost	Estimated Fair Value	Tax Equivalent Yield
<b>Securities Available-for-Sale</b>			
U.S. Treasury and other U.S. Government sponsored entities' notes:			
Due one through five years	\$220,000	\$219,135	1.29%
Due five through ten years	307,605	302,928	2.40%
<b>Total</b>	<b>\$527,605</b>	<b>\$522,063</b>	<b>1.94%</b>
U.S. Government sponsored entities' asset-backed securities	\$907,989	\$911,493	2.23%
<b>Securities Held-to-Maturity</b>			
Obligations of states and political subdivisions			
Due greater than ten years	\$48,190	\$48,924	4.65%
<b>Total</b>	<b>\$48,190</b>	<b>\$48,924</b>	<b>4.65%</b>
U.S. Government sponsored entities' asset-backed securities	\$101,112	\$102,504	3.42%

Approximately \$527.6 million of Park's securities shown in the above table as U.S. Treasury and other U.S. Government sponsored entities' notes are callable notes. These callable securities have a final maturity of 1 to 7 years. The remaining weighted average life of the investment portfolio is 4.8 years.

Investment securities having an amortized cost of \$1,072 million and \$1,205 million at December 31, 2015 and 2014, 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 FHLB advance borrowings.

At December 31, 2015, \$429 million was pledged for government and trust department deposits, \$622 million was pledged to secure repurchase agreements and \$21 million was pledged as collateral for FHLB advance borrowings. At December 31, 2014, \$513 million was pledged for government and trust department deposits, \$664 million was pledged to secure repurchase agreements and \$28 million was pledged as collateral for FHLB advance borrowings.

At December 31, 2015, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

During 2015, Park sold certain HFS investment securities with a book value of \$3.1 million at a gain of \$88,000. These securities had been paid down to 97.8% of the principal outstanding at acquisition. During 2014, Park sold investment securities with a book value of \$187,000 at a gain of \$22,000. Additionally, Park sold investment securities with a book value of \$174.1 million at a loss of \$1.2 million. During 2013, Park sold \$75.0 million of securities at book value for no gain.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 6. LOANS

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

(In thousands)	Loan Balance	Accrued Interest Receivable	Recorded Investment
<b>2015:</b>			
Commercial, financial and agricultural*	\$ 955,727	\$ 3,437	\$ 959,164
Commercial real estate*	1,113,603	4,009	1,117,612
Construction real estate:			
SEPH commercial land and development	2,044	—	2,044
Remaining commercial	128,046	321	128,367
Mortgage	36,722	75	36,797
Installment	6,533	21	6,554
Residential real estate:			
Commercial	410,571	1,014	411,585
Mortgage	1,210,819	1,469	1,212,288
HELOC	211,415	769	212,184
Installment	22,638	78	22,716
Consumer	967,111	3,032	970,143
Leases	2,856	14	2,870
<b>Total loans</b>	<b>\$5,068,085</b>	<b>\$14,239</b>	<b>\$5,082,324</b>
<b>2014:</b>			
Commercial, financial and agricultural*	\$ 856,535	\$ 3,218	\$ 859,753
Commercial real estate*	1,069,637	3,546	1,073,183
Construction real estate:			
SEPH commercial land and development	2,195	—	2,195
Remaining commercial	115,139	300	115,439
Mortgage	31,148	72	31,220
Installment	7,322	23	7,345
Residential real estate:			
Commercial	417,612	1,038	418,650
Mortgage	1,189,709	1,548	1,191,257
HELOC	216,915	803	217,718
Installment	27,139	97	27,236
Consumer	893,160	2,967	896,127
Leases	3,171	17	3,188
<b>Total loans</b>	<b>\$4,829,682</b>	<b>\$13,629</b>	<b>\$4,843,311</b>

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

Loans are shown net of deferred origination fees, costs and unearned income of \$10.4 million at December 31, 2015 and \$9.4 million at December 31, 2014, which represented a net deferred income position in both years.

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

### Credit Quality

The following table presents 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 December 31, 2015 and December 31, 2014:

(In thousands)	Nonaccrual Loans	Accruing Troubled Debt Restructurings	Loans Past Due 90 Days or More and Accruing	Total Nonperforming Loans
<b>2015:</b>				
Commercial, financial and agricultural	\$ 21,676	\$ 8,947	\$ —	\$ 30,623
Commercial real estate	15,268	2,757	—	18,025
Construction real estate:				
SEPH commercial land and development	2,044	—	—	2,044
Remaining commercial	4,162	514	—	4,676
Mortgage	7	110	—	117
Installment	64	114	—	178
Residential real estate:				
Commercial	25,063	261	—	25,324
Mortgage	20,378	10,143	851	31,372
HELOC	1,749	873	27	2,649
Installment	1,657	635	4	2,296
Consumer	3,819	734	1,093	5,646
<b>Total loans</b>	<b>\$ 95,887</b>	<b>\$25,088</b>	<b>\$1,975</b>	<b>\$122,950</b>
<b>2014:</b>				
Commercial, financial and agricultural	\$ 18,826	\$ 297	\$ 229	\$ 19,352
Commercial real estate	19,299	2,690	—	21,989
Construction real estate:				
SEPH commercial land and development	2,078	—	—	2,078
Remaining commercial	5,558	51	—	5,609
Mortgage	59	94	9	162
Installment	115	125	—	240
Residential real estate:				
Commercial	24,336	594	—	24,930
Mortgage	21,869	10,349	1,329	33,547
HELOC	1,879	630	9	2,518
Installment	1,743	779	—	2,522
Consumer	4,631	723	1,133	6,487
<b>Total loans</b>	<b>\$100,393</b>	<b>\$16,332</b>	<b>\$2,709</b>	<b>\$119,434</b>

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

(In thousands)	Nonaccrual and Accruing Troubled Debt Restructurings	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment
<b>2015:</b>			
Commercial, financial and agricultural	\$ 30,623	\$30,595	\$ 28
Commercial real estate	18,025	18,025	—
Construction real estate:			
SEPH commercial land and development	2,044	2,044	—
Remaining commercial	4,676	4,676	—
Mortgage	117	—	117
Installment	178	—	178
Residential real estate:			
Commercial	25,324	25,324	—
Mortgage	30,521	—	30,521
HELOC	2,622	—	2,622
Installment	2,292	—	2,292
Consumer	4,553	—	4,553
<b>Total loans</b>	<b>\$120,975</b>	<b>\$80,664</b>	<b>\$40,311</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)	Nonaccrual and Accruing Troubled Debt Restructurings	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment
2014:			
Commercial, financial and agricultural	\$ 19,123	\$19,106	\$ 17
Commercial real estate	21,989	21,989	—
Construction real estate:			
SEPH commercial land and development	2,078	2,078	—
Remaining commercial	5,609	5,609	—
Mortgage	153	—	153
Installment	240	—	240
Residential real estate:			
Commercial	24,930	24,930	—
Mortgage	32,218	—	32,218
HELOC	2,509	—	2,509
Installment	2,522	—	2,522
Consumer	5,354	—	5,354
<b>Total loans</b>	<b>\$116,725</b>	<b>\$73,712</b>	<b>\$43,013</b>

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

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

(In thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
2015:			
<b>With no related allowance recorded</b>			
Commercial, financial and agricultural	\$ 32,583	\$18,763	\$ —
Commercial real estate	15,138	14,916	—
Construction real estate:			
SEPH commercial land and development	10,834	2,044	—
Remaining commercial	2,506	1,531	—
Residential real estate:			
Commercial	23,798	23,480	—
<b>With an allowance recorded</b>			
Commercial, financial and agricultural	16,155	11,832	1,904
Commercial real estate	3,195	3,109	381
Construction real estate:			
Remaining commercial	3,145	3,145	1,356
Residential real estate:			
Commercial	1,951	1,844	550
<b>Total</b>	<b>\$109,305</b>	<b>\$80,664</b>	<b>\$ 4,191</b>
2014:			
<b>With no related allowance recorded</b>			
Commercial, financial and agricultural	\$ 30,601	\$17,883	\$ —
Commercial real estate	27,923	20,696	—
Construction real estate:			
SEPH commercial land and development	11,026	2,078	—
Remaining commercial	1,427	391	—
Residential real estate:			
Commercial	25,822	23,352	—
<b>With an allowance recorded</b>			
Commercial, financial and agricultural	1,251	1,223	981
Commercial real estate	1,310	1,293	262
Construction real estate:			
Remaining commercial	5,218	5,218	1,812
Residential real estate:			
Commercial	1,578	1,578	605
<b>Total</b>	<b>\$106,156</b>	<b>\$73,712</b>	<b>\$ 3,660</b>

Management's general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral. At December 31, 2015 and December 31, 2014, there were \$24.2 million and \$32.4 million, respectively, of partial charge-offs on loans individually evaluated for impairment with no related allowance recorded and \$4.5 million and \$45,000, respectively, of partial charge-offs on loans individually evaluated for impairment that also had a specific reserve allocated.

The allowance for loan losses included specific reserves related to loans individually evaluated for impairment at December 31, 2015 and 2014, of \$4.2 million and \$3.7 million, respectively. These loans with specific reserves had a recorded investment of \$19.9 million and \$9.3 million as of December 31, 2015 and 2014, respectively.

Interest income on loans individually evaluated for impairment is recognized on a cash basis only when Park expects to receive the entire recorded investment of the loan. The following tables present the average recorded investment and interest income recognized subsequent to impairment on loans individually evaluated for impairment as of and for the years ended December 31, 2015, 2014, and 2013:

(In thousands)	Recorded Investment as of December 31, 2015	Year ended December 31, 2015 Average Recorded Investment	Interest Income Recognized
Commercial, financial and agricultural	\$ 30,595	\$ 20,179	\$ 340
Commercial real estate	18,025	17,883	550
Construction real estate:			
SEPH commercial land and development	2,044	2,066	21
Remaining commercial	4,676	5,666	26
Residential real estate:			
Commercial	25,324	24,968	1,026
Consumer	—	—	—
<b>Total</b>	<b>\$ 80,664</b>	<b>\$ 70,762</b>	<b>\$1,963</b>
(In thousands)	Recorded Investment as of December 31, 2014	Year ended December 31, 2014 Average Recorded Investment	Interest Income Recognized
Commercial, financial and agricultural	\$ 19,106	\$ 19,518	\$ 360
Commercial real estate	21,989	31,945	1,027
Construction real estate:			
SEPH commercial land and development	2,078	3,658	146
Remaining commercial	5,609	8,784	61
Residential real estate:			
Commercial	24,930	28,306	1,084
Consumer	—	403	—
<b>Total</b>	<b>\$ 73,712</b>	<b>\$ 92,614</b>	<b>\$2,678</b>
(In thousands)	Recorded Investment as of December 31, 2013	Year ended December 31, 2013 Average Recorded Investment	Interest Income Recognized
Commercial, financial and agricultural	\$ 20,727	\$ 20,523	\$ 412
Commercial real estate	41,822	41,426	1,151
Construction real estate:			
SEPH commercial land and development	4,777	8,723	—
Remaining commercial	10,782	17,829	616
Residential real estate:			
Commercial	33,408	34,972	461
Consumer	799	616	—
<b>Total</b>	<b>\$112,315</b>	<b>\$124,089</b>	<b>\$2,640</b>



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

(In thousands)	Accruing Loans Past Due 30–89 Days	Past Due Nonaccrual Loans and Loans Past Due 90 Days or More and Accruing*	Total Past Due	Total Current	Total Recorded Investment
<b>December 31, 2015:</b>					
Commercial, financial and agricultural	\$ 670	\$ 7,536	\$ 8,206	\$ 950,958	\$ 959,164
Commercial real estate	142	530	672	1,116,940	1,117,612
Construction real estate:					
SEPH commercial land and development	—	2,044	2,044	—	2,044
Remaining commercial	165	84	249	128,118	128,367
Mortgage	63	7	70	36,727	36,797
Installment	200	46	246	6,308	6,554
Residential real estate:					
Commercial	325	19,521	19,846	391,739	411,585
Mortgage	10,569	8,735	19,304	1,192,984	1,212,288
HELOC	487	186	673	211,511	212,184
Installment	426	318	744	21,972	22,716
Consumer	11,458	3,376	14,834	955,309	970,143
Leases	—	—	—	2,870	2,870
<b>Total loans</b>	<b>\$24,505</b>	<b>\$42,383</b>	<b>\$66,888</b>	<b>\$5,015,436</b>	<b>\$5,082,324</b>

\*Includes \$2.0 million of loans past due 90 days or more and accruing. The remaining are past due, nonaccrual loans.

(In thousands)	Accruing Loans Past Due 30–89 Days	Past Due Nonaccrual Loans and Loans Past Due 90 Days or More and Accruing*	Total Past Due	Total Current	Total Recorded Investment
<b>December 31, 2014:</b>					
Commercial, financial and agricultural	\$ 6,482	\$ 7,508	\$13,990	\$ 845,763	\$ 859,753
Commercial real estate	808	8,288	9,096	1,064,087	1,073,183
Construction real estate:					
SEPH commercial land and development	—	2,068	2,068	127	2,195
Remaining commercial	166	77	243	115,196	115,439
Mortgage	39	68	107	31,113	31,220
Installment	21	25	46	7,299	7,345
Residential real estate:					
Commercial	250	19,592	19,842	398,808	418,650
Mortgage	11,146	10,637	21,783	1,169,474	1,191,257
HELOC	262	387	649	217,069	217,718
Installment	596	464	1,060	26,176	27,236
Consumer	11,304	3,818	15,122	881,005	896,127
Leases	—	—	—	3,188	3,188
<b>Total loans</b>	<b>\$31,074</b>	<b>\$52,932</b>	<b>\$84,006</b>	<b>\$4,759,305</b>	<b>\$4,843,311</b>

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

### Credit Quality Indicators

Management utilizes past due information as a credit quality indicator across the loan portfolio. Past due information as of December 31, 2015 and 2014 is included in the tables above. The past due information is the primary credit quality indicator within the following classes of loans: (1) mortgage loans and installment loans in the construction real estate segment; (2) mortgage loans, HELOC and installment loans in the residential real estate segment; and (3) consumer loans. The primary credit indicator for commercial loans is based on an internal grading system that grades all commercial loans on a scale from 1 to 8. Credit grades are continuously monitored by the responsible loan officer and adjustments are made when appropriate. A grade of 1 indicates little or no credit risk and a grade of 8 is considered a loss. Commercial loans that are pass-rated (graded a 1 through a 4) are considered to be of acceptable credit risk. Commercial loans graded a 5 (special mention) are considered to be watch list credits and a higher loan loss reserve percentage is allocated to these loans. Loans classified as special mention have potential weaknesses that require management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of

Park's credit position at some future date. Commercial loans graded 6 (substandard), also considered watch list credits, are considered to represent higher credit risk and, as a result, a higher loan loss reserve percentage is allocated to these loans. Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or the value of the collateral pledged, if any. Loans so classified have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that Park will sustain some loss if the deficiencies are not corrected. Commercial loans that are graded a 7 (doubtful) are shown as nonaccrual and Park generally charges these loans down to their fair value by taking a partial charge-off or recording a specific reserve. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Certain 6-rated loans and all 7-rated loans are included within the impaired category. A loan is deemed impaired when management determines the borrower's ability to perform in accordance with the contractual loan agreement is in doubt. Any commercial loan graded an 8 (loss) is completely charged off.

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

(In thousands)	5 Rated	6 Rated	Impaired	Pass Rated	Recorded Investment
<b>December 31, 2015:</b>					
Commercial, financial and agricultural*	\$ 4,392	\$ 347	\$ 30,623	\$ 923,802	\$ 959,164
Commercial real estate*	14,880	3,417	18,025	1,081,290	1,117,612
Construction real estate:					
SEPH commercial land and development	—	—	2,044	—	2,044
Remaining commercial	2,151	122	4,676	121,418	128,367
Residential real estate:					
Commercial	3,280	386	25,324	382,595	411,585
Leases	—	—	—	2,870	2,870
<b>Total commercial loans</b>	<b>\$24,703</b>	<b>\$4,272</b>	<b>\$ 80,692</b>	<b>\$2,511,975</b>	<b>\$2,621,642</b>
<b>December 31, 2014:</b>					
Commercial, financial and agricultural*	\$ 1,874	\$1,201	\$ 19,123	\$ 837,555	\$ 859,753
Commercial real estate*	8,448	1,712	21,989	1,041,034	1,073,183
Construction real estate:					
SEPH commercial land and development*	—	—	2,078	117	2,195
Remaining commercial	3,349	57	5,609	106,424	115,439
Residential real estate:					
Commercial	2,581	598	24,930	390,541	418,650
Leases	—	—	—	3,188	3,188
<b>Total commercial loans</b>	<b>\$16,252</b>	<b>\$3,568</b>	<b>\$ 73,729</b>	<b>\$2,378,859</b>	<b>\$2,472,408</b>

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

### Troubled Debt Restructuring

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 years ended December 31, 2015 and December 31, 2014 did not meet the definition of a TDR as the modification was a delay in a payment that was considered to be insignificant. Management considers a forbearance period of up

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

to three months or a delay in payment of up to 30 days to be insignificant. TDRs may be classified as accruing if the borrower has been current for a period of at least six months with respect to loan payments and management expects that the borrower will be able to continue to make payments in accordance with the terms of the restructured note. Management reviews all accruing TDRs quarterly to ensure payments continue to be made in accordance with the modified terms.

Management reviews renewals/modifications of loans previously identified as TDRs to consider if it is appropriate to remove the TDR classification. If the borrower is no longer experiencing financial difficulty and the renewal/modification does not contain a concessionary interest rate or other concessionary terms, management considers the potential removal of the TDR classification. If deemed appropriate, the TDR classification is removed as the borrower has complied with the terms of the loan at the date of the renewal/modification and there was a reasonable expectation that the borrower would continue to comply with the terms of the loan subsequent to the date of the renewal/modification. The majority of these TDRs were originally considered restructurings in a prior year as a result of a renewal/modification with an interest rate that was not commensurate with the risk of the underlying loan at the time of the renewal/modification. During the years ended December 31, 2015 and 2014, Park removed the TDR classification on \$1.2 million and \$2.5 million, respectively, of loans that met the requirements discussed above.

At December 31, 2015 and 2014, there were \$41.1 million and \$47.5 million, respectively, of TDRs included in the nonaccrual loan totals. At December 31, 2015 and 2014, \$19.1 million and \$15.7 million, respectively, of these nonaccrual TDRs were performing in accordance with the terms of the restructured note. As of December 31, 2015 and 2014, there were \$25.1 million and \$16.3 million, respectively, of TDRs included in accruing loan totals. Management will continue to review the restructured loans and may determine it appropriate to move certain nonaccrual TDRs to accrual status in the future.

At December 31, 2015 and 2014, Park had commitments to lend \$2.3 million and \$1.4 million, respectively, of additional funds to borrowers whose outstanding loan terms had been modified in a TDR.

The specific reserve related to TDRs at December 31, 2015 and 2014 was \$2.3 million and \$2.4 million, respectively. Modifications made in 2014 and 2015 were largely the result of renewals, extending the maturity date of the loan, at terms consistent with the original note. These modifications were deemed to be TDRs primarily due to Park's conclusion that the borrower would likely not have qualified for similar terms through another lender. Many of the modifications deemed to be TDRs were previously identified as impaired loans, and thus were also previously evaluated for impairment under ASC 310. Additional specific reserves of \$1.3 million were recorded during the year ended December 31, 2015, as a result of TDRs identified in the 2015 year. Additional specific reserves of \$0.7 million were recorded during the year ended December 31, 2014 as a result of TDRs identified in the 2014 year. Additional specific reserves of \$1.1 million were recorded during the year ended December 31, 2013 as a result of TDRs identified in the 2013 year.

The terms of certain other loans were modified during the years ended December 31, 2015 and 2014 that did not meet the definition of a TDR. Modified substandard commercial loans which did not meet the definition of a TDR had a total recorded investment as of December 31, 2015 and 2014 of \$116,000 and \$987,000, respectively. The renewal/modification of these loans: (1) involved a renewal/modification of the terms of a loan to a borrower who was not experiencing financial difficulties, (2) resulted in a delay in a payment that was considered to be insignificant, or (3) resulted in Park obtaining additional collateral or guarantees that improved the likelihood of the ultimate collection of the loan such that the modification was deemed to be at market terms. Modified consumer loans which did not meet the definition of a TDR had a total recorded investment as of December 31, 2015 and 2014 of \$16.5 million and \$19.9 million, respectively. Many of these loans were to borrowers who were not experiencing financial difficulties but who were looking to reduce their cost of funds.

The following tables detail the number of contracts modified as TDRs during the years ended December 31, 2015, 2014 and 2013 as well as the recorded investment of these contracts at December 31, 2015, 2014 and 2013. The recorded investment pre- and post-modification is generally the same due to the fact that Park does not typically forgive principal.

(In thousands)	Number of Contracts	Accruing	Nonaccrual	Recorded Investment
<b>Year ended December 31, 2015:</b>				
Commercial, financial and agricultural	39	\$ 8,948	\$ 3,640	\$12,588
Commercial real estate	14	637	3,523	4,160
Construction real estate: SEPH commercial land and development	—	—	—	—
Remaining commercial	2	513	—	513
Mortgage	1	19	—	19
Installment	—	—	—	—
Residential real estate: Commercial	11	—	1,185	1,185
Mortgage	39	1,132	2,122	3,254
HELOC	26	315	45	360
Installment	9	—	155	155
Consumer	283	202	888	1,090
<b>Total loans</b>	<b>424</b>	<b>\$11,766</b>	<b>\$11,558</b>	<b>\$23,324</b>
<b>Year ended December 31, 2014:</b>				
Commercial, financial and agricultural	30	\$ 292	\$ 431	\$ 723
Commercial real estate	11	1,184	1,254	2,438
Construction real estate: SEPH commercial land and development	—	—	—	—
Remaining commercial	2	—	206	206
Mortgage	—	—	—	—
Installment	2	—	56	56
Residential real estate: Commercial	9	—	866	866
Mortgage	46	32	2,325	2,357
HELOC	10	85	241	326
Installment	10	109	12	121
Consumer	330	244	1,058	1,302
<b>Total loans</b>	<b>450</b>	<b>\$ 1,946</b>	<b>\$ 6,449</b>	<b>\$ 8,395</b>
<b>Year ended December 31, 2013:</b>				
Commercial, financial and agricultural	34	\$ 7	\$ 1,334	\$ 1,341
Commercial real estate	22	—	8,563	8,563
Construction real estate: SEPH commercial land and development	—	—	—	—
Remaining commercial	3	—	98	98
Mortgage	—	—	—	—
Installment	4	26	25	51
Residential real estate: Commercial	15	—	2,552	2,552
Mortgage	62	1,967	2,278	4,245
HELOC	16	175	—	175
Installment	13	113	179	292
Consumer	327	805	345	1,150
<b>Total loans</b>	<b>496</b>	<b>\$ 3,093</b>	<b>\$15,374</b>	<b>\$18,467</b>

Of those loans which were modified and determined to be a TDR during the year ended December 31, 2015, \$0.8 million were on nonaccrual status as of December 31, 2014. Of those loans which were modified and determined to be a TDR during the year ended December 31, 2014, \$0.7 million were on nonaccrual status as of December 31, 2013. Of those loans which were modified and determined to be a TDR during the year ended December 31, 2013, \$5.5 million were on nonaccrual status as of December 31, 2012.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the recorded investment in financing receivables which were modified as TDRs within the previous 12 months and for which there was a payment default during the year ended December 31, 2015, December 31, 2014 and December 31, 2013. For this table, a loan is considered to be in default when it becomes 30 days contractually past due under modified terms. The additional allowance for loan loss resulting from the defaults on TDR loans was immaterial.

(In thousands)	Year ended December 31, 2015		Year ended December 31, 2014		Year ended December 31, 2013	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial, financial and agricultural	1	\$ 1	4	\$ 206	11	\$ 771
Commercial real estate	1	626	1	302	11	2,839
Construction real estate: SEPH commercial land and development	—	—	—	—	—	—
Remaining commercial	—	—	—	—	—	—
Mortgage	—	—	—	—	—	—
Installment	—	—	—	—	1	10
Residential real estate:						
Commercial	3	1,005	1	3	4	1,683
Mortgage	12	682	14	810	26	1,533
HELOC	1	5	2	160	—	—
Installment	2	101	2	12	5	72
Consumer	47	434	62	516	74	471
Leases	—	—	—	—	—	—
<b>Total loans</b>	<b>67</b>	<b>\$2,854</b>	<b>86</b>	<b>\$2,009</b>	<b>132</b>	<b>\$7,379</b>

Of the \$2.9 million in modified TDRs which defaulted during the year ended December 31, 2015, \$44,000 were accruing loans and \$2.8 million were

nonaccrual loans. Of the \$2.0 million in modified TDRs which defaulted during the year ended December 31, 2014, \$314,000 were accruing loans and \$1.7 million were nonaccrual loans. Of the \$7.4 million in modified TDRs which defaulted during the year ended December 31, 2013, \$397,000 were accruing loans and \$7.0 million were nonaccrual loans.

Certain of the Corporation's executive officers, directors and related entities of directors are loan customers of PNB. As of December 31, 2015 and 2014, credit exposure aggregating approximately \$47.0 million and \$45.7 million, respectively, was outstanding to such parties. Of this total exposure, approximately \$36.0 million was outstanding at each of December 31, 2015 and 2014, with the remaining balance representing available credit. During 2015, new loans and advances on existing loans were made to these executive officers, directors and related entities totaling \$5.8 million and \$7.1 million, respectively. These extensions of credit were offset by payments of \$12.9 million. During 2014, new loans and advances on existing loans were \$6.0 million and \$6.4 million, respectively. These extensions of credit were offset by payments of \$14.1 million.

### 7. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is that amount management believes is adequate to absorb probable incurred credit losses in the loan portfolio based on management's evaluation of various factors including overall growth in the loan portfolio, an analysis of individual loans, prior and current loss experience, and current economic conditions. A provision for loan losses is charged to operations based on management's periodic evaluation of these and other pertinent factors as discussed within Note 1 – Summary of Significant Accounting Policies.

The activity in the allowance for loan losses for the years ended December 31, 2015, 2014, and 2013 is summarized in the following tables.

(In thousands)	Commercial, Financial and Agricultural	Commercial Real Estate	Construction Real Estate	Residential Real Estate	Consumer	Leases	Total
<b>December 31, 2015</b>							
<b>Allowance for credit losses:</b>							
Beginning balance	\$10,719	\$ 8,808	\$ 8,652	\$14,772	\$11,401	\$ —	\$ 54,352
Charge-offs	2,478	348	470	2,352	8,642	—	14,290
Recoveries	(1,373)	(2,241)	(2,092)	(2,438)	(3,295)	(3)	(11,442)
<b>Net charge-offs (recoveries)</b>	<b>1,105</b>	<b>(1,893)</b>	<b>(1,622)</b>	<b>(86)</b>	<b>5,347</b>	<b>(3)</b>	<b>2,848</b>
Provision (Recovery)	4,080	(1,504)	(1,710)	(1,344)	5,470	(2)	4,990
<b>Ending balance</b>	<b>\$13,694</b>	<b>\$ 9,197</b>	<b>\$ 8,564</b>	<b>\$13,514</b>	<b>\$11,524</b>	<b>\$ 1</b>	<b>\$ 56,494</b>
<b>December 31, 2014</b>							
<b>Allowance for credit losses:</b>							
Beginning balance	\$14,218	\$15,899	\$ 6,855	\$14,251	\$ 8,245	\$ —	\$ 59,468
Charge-offs	3,779	8,003	1,316	3,944	7,738	—	24,780
Recoveries	(1,003)	(7,759)	(12,572)	(2,985)	(2,671)	(7)	(26,997)
<b>Net charge-offs (recoveries)</b>	<b>2,776</b>	<b>244</b>	<b>(11,256)</b>	<b>959</b>	<b>5,067</b>	<b>(7)</b>	<b>(2,217)</b>
(Recovery) Provision	(723)	(6,847)	(9,459)	1,480	8,223	(7)	(7,333)
<b>Ending balance</b>	<b>\$10,719</b>	<b>\$ 8,808</b>	<b>\$ 8,652</b>	<b>\$14,772</b>	<b>\$11,401</b>	<b>\$ —</b>	<b>\$ 54,352</b>
<b>December 31, 2013</b>							
<b>Allowance for credit losses:</b>							
Beginning balance	\$15,635	\$11,736	\$ 6,841	\$14,759	\$ 6,566	\$ —	\$ 55,537
Charge-offs	6,160	1,832	1,791	3,207	6,163	—	19,153
Recoveries	(1,314)	(726)	(9,378)	(6,000)	(2,249)	(2)	(19,669)
<b>Net charge-offs (recoveries)</b>	<b>4,846</b>	<b>1,106</b>	<b>(7,587)</b>	<b>(2,793)</b>	<b>3,914</b>	<b>(2)</b>	<b>(516)</b>
Provision (Recovery)	3,429	5,269	(7,573)	(3,301)	5,593	(2)	3,415
<b>Ending balance</b>	<b>\$14,218</b>	<b>\$15,899</b>	<b>\$ 6,855</b>	<b>\$14,251</b>	<b>\$ 8,245</b>	<b>\$ —</b>	<b>\$ 59,468</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Management updates historical losses annually in the fourth quarter, or more frequently as deemed appropriate.

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

Management continued to extend the historical loss period to six years in 2014 and seven years in 2015. Due to the same factors that management considered in 2013, management has continued to apply more weight to the 2009 through 2011 periods compared to the 2012 through 2015 periods.

Loans collectively evaluated for impairment in the following tables include all performing loans at December 31, 2015 and 2014, as well as nonperforming loans internally classified as consumer loans. Nonperforming consumer loans are not typically individually evaluated for impairment, but receive a portion of the statistical allocation of the allowance for loan losses. Loans individually evaluated for impairment include all impaired loans internally classified as commercial loans at December 31, 2015 and 2014, which are evaluated for impairment in accordance with GAAP (see Note 1 – Summary of Significant Accounting Policies).

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

(In thousands)	Commercial, Financial and Agricultural	Commercial Real Estate	Construction Real Estate	Residential Real Estate	Consumer	Leases	Total
<b>December 31, 2015</b>							
<b>Allowance for loan losses:</b>							
Ending allowance balance attributed to loans							
Individually evaluated for impairment	\$ 1,904	\$ 381	\$ 1,356	\$ 550	\$ —	\$ —	\$ 4,191
Collectively evaluated for impairment	11,790	8,816	7,208	12,964	11,524	1	52,303
<b>Total ending allowance balance</b>	<b>\$ 13,694</b>	<b>\$ 9,197</b>	<b>\$ 8,564</b>	<b>\$ 13,514</b>	<b>\$ 11,524</b>	<b>\$ 1</b>	<b>\$ 56,494</b>
<b>Loan balance:</b>							
Loans individually evaluated for impairment	\$ 30,545	\$ 18,015	\$ 6,716	\$ 25,323	\$ —	\$ —	\$ 80,599
Loans collectively evaluated for impairment	925,182	1,095,588	166,629	1,830,120	967,111	2,856	4,987,486
<b>Total ending loan balance</b>	<b>\$955,727</b>	<b>\$1,113,603</b>	<b>\$173,345</b>	<b>\$1,855,443</b>	<b>\$967,111</b>	<b>\$2,856</b>	<b>\$5,068,085</b>
<b>Allowance for loan losses as a percentage of loan balance:</b>							
Loans individually evaluated for impairment	6.23%	2.11%	20.19%	2.17%	—	—	5.20%
Loans collectively evaluated for impairment	1.27%	0.80%	4.33%	0.71%	1.19%	0.04%	1.05%
<b>Total</b>	<b>1.43%</b>	<b>0.83%</b>	<b>4.94%</b>	<b>0.73%</b>	<b>1.19%</b>	<b>0.04%</b>	<b>1.11%</b>
<b>Recorded investment:</b>							
Loans individually evaluated for impairment	\$ 30,595	\$ 18,025	\$ 6,720	\$ 25,324	\$ —	\$ —	\$ 80,664
Loans collectively evaluated for impairment	928,569	1,099,587	167,042	1,833,449	970,143	2,870	5,001,660
<b>Total ending recorded investment</b>	<b>\$959,164</b>	<b>\$1,117,612</b>	<b>\$173,762</b>	<b>\$1,858,773</b>	<b>\$970,143</b>	<b>\$2,870</b>	<b>\$5,082,324</b>
<b>December 31, 2014</b>							
<b>Allowance for loan losses:</b>							
Ending allowance balance attributed to loans							
Individually evaluated for impairment	\$ 981	\$ 262	\$ 1,812	\$ 605	\$ —	\$ —	\$ 3,660
Collectively evaluated for impairment	9,738	8,546	6,840	14,167	11,401	—	50,692
<b>Total ending allowance balance</b>	<b>\$ 10,719</b>	<b>\$ 8,808</b>	<b>\$ 8,652</b>	<b>\$ 14,772</b>	<b>\$ 11,401</b>	<b>\$ —</b>	<b>\$ 54,352</b>
<b>Loan balance:</b>							
Loans individually evaluated for impairment	\$ 19,103	\$ 21,978	\$ 7,690	\$ 24,905	\$ —	\$ —	\$ 73,676
Loans collectively evaluated for impairment	837,432	1,047,659	148,114	1,826,470	893,160	3,171	4,756,006
<b>Total ending loan balance</b>	<b>\$856,535</b>	<b>\$1,069,637</b>	<b>\$155,804</b>	<b>\$1,851,375</b>	<b>\$893,160</b>	<b>\$3,171</b>	<b>\$4,829,682</b>
<b>Allowance for loan losses as a percentage of loan balance:</b>							
Loans individually evaluated for impairment	5.14%	1.19%	23.56%	2.43%	—	—	4.97%
Loans collectively evaluated for impairment	1.16%	0.82%	4.62%	0.78%	1.28%	—	1.07%
<b>Total</b>	<b>1.25%</b>	<b>0.82%</b>	<b>5.55%</b>	<b>0.80%</b>	<b>1.28%</b>	<b>—</b>	<b>1.13%</b>
<b>Recorded investment:</b>							
Loans individually evaluated for impairment	\$ 19,106	\$ 21,989	\$ 7,687	\$ 24,930	\$ —	\$ —	\$ 73,712
Loans collectively evaluated for impairment	840,647	1,051,194	148,512	1,829,931	896,127	3,188	4,769,599
<b>Total ending recorded investment</b>	<b>\$859,753</b>	<b>\$1,073,183</b>	<b>\$156,199</b>	<b>\$1,854,861</b>	<b>\$896,127</b>	<b>\$3,188</b>	<b>\$4,843,311</b>

**8. LOANS HELD FOR SALE**

Mortgage loans held for sale are carried at their fair value. Mortgage loans held for sale were \$7.3 million and \$5.3 million at December 31, 2015 and 2014, respectively. These amounts are included in loans on the Consolidated Balance Sheets and in the residential real estate loan segments in Note 6 – Loans and Note 7 – Allowance for Loan Losses. The contractual balance was \$7.2 million and \$5.2 million at December 31, 2015 and 2014, respectively. The gain expected upon sale was \$95,000 and \$80,000 at December 31, 2015 and 2014, respectively. None of these loans were 90 days or more past due or on nonaccrual status as of December 31, 2015 or 2014.

During 2015, Park transferred to held for sale and sold certain commercial loans previously held for investment with a book balance of \$144,000, and recognized a gain of \$756,000. During 2014, Park transferred certain commercial loans held for investment, with a book balance of \$22.0 million, to the loans held for sale portfolio, and subsequently completed the sale of these commercial loans held for sale, recognizing a net gain on sale of \$1.9 million.

**9. OTHER REAL ESTATE OWNED**

The carrying amount of foreclosed properties held at December 31, 2015 and December 31, 2014 are listed below, as well as the recorded investment of loans secured by residential real estate properties for which formal foreclosure proceedings were in process at those dates.

December 31 (In thousands)	2015	2014
OREO:		
Commercial real estate	\$ 8,333	\$ 6,352
Construction real estate	7,259	11,281
Residential real estate	3,059	4,972
<b>Total OREO</b>	<b>\$18,651</b>	<b>\$22,605</b>
Loans in process of foreclosure:		
Residential real estate	\$ 2,021	\$ 2,807

**10. PREMISES AND EQUIPMENT**

The major categories of premises and equipment and accumulated depreciation are summarized as follows:

December 31 (In thousands)	2015	2014
Land	\$ 19,123	\$ 17,836
Buildings	74,525	71,002
Equipment, furniture and fixtures	47,839	42,139
Leasehold improvements	3,878	3,439
<b>Total</b>	<b>\$145,365</b>	<b>\$134,416</b>
Less accumulated depreciation	(85,872)	(78,937)
<b>Premises and equipment, net</b>	<b>\$ 59,493</b>	<b>\$ 55,479</b>

Depreciation expense amounted to \$7.3 million, \$7.2 million and \$7.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The Corporation leases certain premises and equipment accounted for as operating leases. The following is a schedule of the future minimum rental payments required for the next five years under such leases with initial terms in excess of one year:

(In thousands)	
2016	\$1,475
2017	1,276
2018	1,104
2019	1,019
2020	394
Thereafter	520
<b>Total</b>	<b>\$5,788</b>

Rent expense for Park was \$1.7 million, \$1.7 million and \$1.8 million, for the years ended December 31, 2015, 2014 and 2013, respectively.

**11. INVESTMENT IN QUALIFIED AFFORDABLE HOUSING**

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

Previously, these investments were accounted for under the cost method of accounting with amortization of the investment being recorded in other expense and tax benefits recognized in the provision for income taxes. During the first quarter of 2015, Park adopted ASU 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects*, and elected the proportional amortization method with amortization expense and tax benefits recognized through the provision for income taxes. This ASU is required to be applied retrospectively to all periods presented. As a result of these changes, Park recorded a cumulative-effect adjustment to beginning retained earnings.

The following table summarizes the impact of retrospective application to the balance sheet and income statement for all prior periods presented:

December 31 (In thousands)	2014	
<b>Total assets</b>		
As previously reported	\$7,003,256	
As reported under the new guidance	7,001,199	
<b>Retained earnings</b>		
As previously reported	\$ 486,541	
As reported under the new guidance	484,484	
<b>Total equity</b>		
As previously reported	\$ 698,598	
As reported under the new guidance	696,541	
<b>12 months ended</b>		
<b>December 31 (In thousands)</b>	2014	2013
<b>Total other expense</b>		
As previously reported	\$ 195,234	\$188,529
As reported under the new guidance	187,510	181,515
<b>Income tax expense</b>		
As previously reported	28,602	25,131
As reported under the new guidance	36,459	32,503
<b>Net income</b>		
As previously reported	84,090	77,227
As reported under the new guidance	83,957	76,869

The table below details the balances of Park's affordable housing tax credit investments and related unfunded commitments as of December 31, 2015 and 2014.

December 31 (In thousands)	2015	2014
Affordable housing tax credit investments	\$51,247	\$48,911
Unfunded commitments	20,311	16,629

During the years ended December 31, 2015 and 2014, Park recognized amortization expense of \$6.7 million and \$6.9 million, respectively, which was included within the provision for income taxes. For the years ended December 31, 2015 and 2014, Park recognized tax credits and other benefits from its affordable housing tax credit investments of \$8.9 million and \$8.8 million, respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 12. DEPOSITS

At December 31, 2015 and 2014, non-interest bearing and interest bearing deposits were as follows:

December 31 (In thousands)	2015	2014
Non-interest bearing	\$1,404,032	\$1,269,296
Interest bearing	3,943,610	3,858,704
<b>Total</b>	<b>\$5,347,642</b>	<b>\$5,128,000</b>

At December 31, 2015, the maturities of time deposits were as follows:

(In thousands)	
2016	\$814,387
2017	221,761
2018	56,744
2019	145,027
2020	52,062
After 5 years	431
<b>Total</b>	<b>\$1,290,412</b>

At December 31, 2015 and 2014, respectively, Park had approximately \$21.6 million and \$21.9 million of deposits received from executive officers, directors and their related entities.

Time deposits that exceed the FDIC Insurance limit of \$250,000 at December 31, 2015 and 2014 were \$49.7 million and \$64.7 million, respectively.

## 13. 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 balance sheets. Park’s repurchase agreements with a third-party financial institution are classified as long-term debt on the Consolidated 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 reflected in short-term borrowings consist of customer accounts and securities which are pledged on an individual security basis.

At December 31, 2015 and December 31, 2014, Park’s repurchase agreement borrowings totaled \$554 million and \$577 million, respectively. At both December 31, 2015 and December 31, 2014, \$300 million of Park’s repurchase agreement borrowings were classified as long-term debt with the remaining amount being classified as short-term debt on the Consolidated Balance Sheets. These borrowings were collateralized with U.S. government and agency securities with a carrying value of \$622 million and \$664 million at December 31, 2015 and December 31, 2014, respectively. Declines in the value of the collateral would require Park to pledge additional securities. As of December 31, 2015 and December 31, 2014, Park had \$585 million and \$347 million, respectively, of available unpledged securities.

The following table presents the carrying value of Park’s repurchase agreements by remaining contractual maturity at December 31, 2015 and December 31, 2014:

(In thousands)	Remaining Contractual Maturity of the Agreements				Total
	Overnight and Continuous	Up to 30 Days	30–90 Days	Greater than 90 Days	
<b>December 31, 2015:</b>					
U.S. government and agency securities	\$247,618	\$2,239	\$ —	\$304,385	\$554,242
<b>December 31, 2014:</b>					
U.S. government and agency securities	\$268,427	\$ 164	\$4,940	\$303,449	\$576,980

See Note 14 – Short-Term Borrowings for additional information related to repurchase agreements classified as short-term borrowings. See Note 15 – Long-Term Debt for additional information related to repurchase agreements classified as long-term debt.

## 14. SHORT-TERM BORROWINGS

Short-term borrowings were as follows:

December 31 (In thousands)	2015	2014
Securities sold under agreements to repurchase	\$254,242	\$276,980
Federal Home Loan Bank advances	140,000	—
<b>Total short-term borrowings</b>	<b>\$394,242</b>	<b>\$276,980</b>

The outstanding balances for all short-term borrowings as of December 31, 2015 and 2014 and the weighted-average interest rates as of and paid during each of the years then ended were as follows:

(In thousands)	Repurchase Agreements	FHLB Advances
<b>2015:</b>		
Ending balance	\$254,242	\$140,000
Highest month-end balance	278,324	140,000
Average daily balance	257,622	1,096
<b>Weighted-average interest rate:</b>		
As of year-end	0.17%	0.56%
Paid during the year	0.18%	0.59%
<b>2014:</b>		
Ending balance	\$276,980	\$ —
Highest month-end balance	307,025	—
Average daily balance	262,709	561
<b>Weighted-average interest rate:</b>		
As of year-end	0.18%	—
Paid during the year	0.19%	0.10%

During 2014 and 2015, outstanding FHLB advances were collateralized by investment securities owned by the Corporation’s bank subsidiary and by various loans pledged under a blanket agreement by the Corporation’s bank subsidiary. At December 31 2015 and 2014, \$21 million and \$28 million, respectively, of investment securities were pledged as collateral for FHLB advances. At December 31, 2015 and 2014, \$1,985 million and \$2,038 million, respectively, of commercial real estate and residential mortgage loans were pledged under a blanket agreement to the FHLB by Park’s bank subsidiary. See Note 13 – Repurchase Agreement Borrowings for information related to investment securities collateralizing repurchase agreements.

## 15. LONG-TERM DEBT

Long-term debt is listed below:

December 31, (In thousands)	2015		2014	
	Outstanding Balance	Average Rate	Outstanding Balance	Average Rate
<b>Total Federal Home Loan Bank advances</b>				
<b>by year of maturity:</b>				
2015	\$ —	—	51,000	2.00%
2016	—	—	26,000	0.92%
2017	50,000	1.25%	51,000	1.28%
2018	150,000	2.04%	125,049	2.11%
2019	75,000	1.96%	75,333	1.97%
2020	25,000	2.14%	25,462	2.19%
Thereafter	150,000	3.32%	150,699	3.33%
<b>Total</b>	<b>\$450,000</b>	<b>2.37%</b>	<b>\$504,543</b>	<b>2.30%</b>
<b>Total broker repurchase agreements</b>				
<b>by year of maturity:</b>				
2017	\$300,000	1.75%	\$300,000	1.75%
<b>Total</b>	<b>\$300,000</b>	<b>1.75%</b>	<b>\$300,000</b>	<b>1.75%</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, (In thousands)	2015		2014	
	Outstanding Balance	Average Rate	Outstanding Balance	Average Rate
<b>Total combined long-term debt by year of maturity:</b>				
2015	\$ —	—	51,000	2.00%
2016	—	—	26,000	0.92%
2017	350,000	1.68%	351,000	1.68%
2018	150,000	2.04%	125,049	2.11%
2019	75,000	1.96%	75,333	1.97%
2020	25,000	2.14%	25,462	2.19%
Thereafter	150,000	3.32%	150,699	3.33%
<b>Total</b>	<b>\$750,000</b>	<b>2.12%</b>	<b>\$804,543</b>	<b>2.09%</b>
<b>Prepayment penalty</b>	<b>(11,895)</b>	<b>—</b>	<b>(17,941)</b>	<b>—</b>
<b>Total long-term debt</b>	<b>\$738,105</b>	<b>2.16%</b>	<b>\$786,602</b>	<b>2.89%</b>

On November 30, 2012, Park restructured \$300 million in repurchase agreements at a rate of 1.75%. As part of this restructuring, Park paid a prepayment penalty of \$25 million. The penalty is being amortized as an adjustment to interest expense over the remaining term of the repurchase agreements using the effective interest method, resulting in an effective interest rate of 3.55%. Of the \$25 million prepayment penalty, \$9.8 million remained to be amortized as of December 31, 2015. The remaining amortization will be \$5.1 million in 2016 and \$4.7 million in 2017.

On November 21, 2014, Park restructured \$50 million in FHLB advances at a rate of 1.25%. As part of this restructuring, Park paid a prepayment penalty of \$3.2 million. The penalty is being amortized as an adjustment to interest expense over the remaining term of the advances using the effective interest method, resulting in an effective interest rate of 3.52%. Of the \$3.2 million prepayment penalty, \$2.1 million remained to be amortized as of December 31, 2015. The remaining amortization will be \$1.1 million in 2016 and \$1.0 million in 2017.

On March 30, 2015, Park prepaid \$54.5 million of FHLB advances, with a weighted average rate of 1.59%, resulting in a prepayment penalty of \$532,000.

Park had approximately \$150.0 million of long-term debt at December 31, 2015 with a contractual maturity longer than five years. However, all of this debt is callable by the issuer in 2016.

At December 31, 2015 and 2014, FHLB advances were collateralized by investment securities owned by PNB's banking divisions and by various loans pledged under a blanket agreement by PNB's banking divisions. At December 31, 2015 and 2014, \$21 million and \$28 million, respectively, of investment securities were pledged as collateral for FHLB advances. At December 31, 2015 and 2014, \$1,985 million and \$2,038 million, respectively, of commercial real estate and residential mortgage loans were pledged under a blanket agreement to the FHLB by Park's bank subsidiary. See Note 13 – Repurchase Agreement Borrowings for information related to investment securities collateralizing repurchasing agreements.

### 16. SUBORDINATED NOTES

As part of the acquisition of Vision's parent bank holding company ("Vision Parent") on March 9, 2007, Park became the successor to Vision Parent under (i) the Amended and Restated Trust Agreement of Vision Bancshares Trust I (the "Trust"), dated as of December 5, 2005, (ii) the Junior Subordinated Indenture, dated as of December 5, 2005, and (iii) the Guarantee Agreement, also dated as of December 5, 2005.

On December 1, 2005, Vision Parent formed a wholly-owned Delaware statutory business trust, Vision Bancshares Trust I ("Trust I"), which issued \$15.0 million of Trust I's floating rate preferred securities (the "Trust Preferred Securities") to institutional investors. These Trust Preferred Securities qualify as Tier I capital under FRB guidelines. All of the common securities of Trust I are owned by Park. The proceeds from the issuance of the common securities and the Trust Preferred Securities were used by Trust I to purchase \$15.5 million of

junior subordinated notes, which carry a floating rate based on three-month LIBOR plus 148 basis points. The debentures represent the sole asset of Trust I. The Trust Preferred Securities accrue and pay distributions at a floating rate of three-month LIBOR plus 148 basis points per annum. The Trust Preferred Securities are mandatorily redeemable upon maturity of the notes in December 2035, or upon earlier redemption as provided in the notes. Park has the right to redeem the notes purchased by Trust I in whole or in part, on or after December 30, 2010. As specified in the indenture, if the notes are redeemed prior to maturity, the redemption price will be the principal amount, plus any unpaid accrued interest. In accordance with GAAP, Trust I is not consolidated with Park's financial statements, but rather the subordinated notes are reflected as a liability.

On December 23, 2009, Park entered into a Note Purchase Agreement, dated December 23, 2009, with 38 purchasers (the "2009 Purchasers"). Under the terms of the Note Purchase Agreement, the 2009 Purchasers purchased from Park an aggregate principal amount of \$35.25 million of 10% Subordinated Notes due December 23, 2019 (the "2009 Notes"). The 2009 Notes were intended to qualify as Tier 2 capital under applicable rules and regulations of the FRB. The 2009 Notes could not be prepaid in any amount prior to December 23, 2014; however, subsequent to that date, Park could prepay, without penalty, all or a portion of the principal amount outstanding. Of the \$35.25 million in 2009 Notes, \$14.05 million were purchased by related parties. The 2009 Notes were prepaid in full on December 24, 2014, together with accrued interest.

On April 20, 2012, Park entered into a Note Purchase Agreement, dated April 20, 2012 (the "2012 Purchase Agreement"), with 56 purchasers (the "2012 Purchasers"). Under the terms of the 2012 Purchase Agreement, the 2012 Purchasers purchased from Park an aggregate principal amount of \$30 million of 7% Subordinated Notes due April 20, 2022 (the "2012 Notes"). The 2012 Notes are intended to qualify as Tier 2 capital under applicable rules and regulations of the FRB. Each 2012 Note was purchased at a purchase price of 100% of the principal amount thereof. The 2012 Notes may not be prepaid by Park prior to April 20, 2017. From and after April 20, 2017, Park may prepay all, or from time to time, any part of the 2012 Notes at 100% of the principal amount (plus accrued interest) without penalty, subject to any requirement under FRB regulations to obtain prior approval from the FRB before making any prepayment.

### 17. SHARE-BASED COMPENSATION

The Park National Corporation 2013 Long-Term Incentive Plan (the "2013 Incentive Plan") was adopted by the Board of Directors of Park on January 28, 2013 and was approved by Park's shareholders at the Annual Meeting of Shareholders on April 22, 2013. The 2013 Incentive Plan makes equity-based awards and cash-based awards available for grant to participants in the form of incentive stock options, nonqualified stock options, stock appreciation rights, restricted common shares, restricted stock unit awards that may be settled in common shares, cash or a combination of the two, unrestricted common shares and cash-based awards. Under the 2013 Incentive Plan, 600,000 common shares are authorized to be issued and delivered in connection with grants under the 2013 Incentive Plan. The common shares to be issued and delivered under the 2013 Incentive Plan may consist of either common shares currently held or common shares subsequently acquired by Park as treasury shares, including common shares purchased in the open market or in private transactions. No awards may be made under the 2013 Incentive Plan after April 22, 2023. At December 31, 2015, 524,100 common shares were available for future grants under the 2013 Incentive Plan.

During 2015, 2014, and 2013, Park granted 10,150, 10,200, and 10,550 common shares, respectively, to directors of Park and to directors of Park's bank subsidiary PNB (and its divisions) under the 2013 Incentive Plan. The common shares granted to directors were not subjected to a vesting period

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

and resulted in expense of \$963,000, \$801,000, and \$850,000 in 2015, 2014, and 2013, respectively, which is included in Professional fees and services on the Consolidated Income Statement.

On January 24, 2014, the Compensation Committee of the Board of Directors of Park granted awards of an aggregate of 21,975 performance-based restricted stock units ("PBRsUs") to certain employees of Park, which grants were effective on January 24, 2014. On December 16, 2014, the Compensation Committee of the Board of Directors of Park granted awards of an aggregate of 23,025 PBRsUs to certain employees of Park, which grants were effective on January 2, 2015. The number of PBRsUs earned or settled will depend on certain performance conditions and are also subject to service-based vesting. None of the PBRsUs have vested as of December 31, 2015. As of December 31, 2015, 200 PBRsUs have been forfeited.

Share-based compensation expense of \$865,000 and \$458,000 was recognized for the years ended December 31, 2015 and 2014, respectively, related to PBRsU awards to employees. Park expects to recognize additional share-based compensation expense of approximately \$734,000 through the first quarter of 2018 related to PBRsUs granted in 2014 and approximately \$1.2 million through the first quarter of 2019 related to PBRsUs granted in 2015. No share-based compensation expense was recognized in 2013 as there were no outstanding awards held by employees.

### 18. BENEFIT PLANS

The Corporation has a noncontributory Defined Benefit Pension Plan (the "Pension Plan") covering substantially all of the employees of the Corporation and its subsidiaries. The Pension Plan provides benefits based on an employee's years of service and compensation.

There were no pension contributions in 2014 or 2015 and there is no contribution expected in 2016.

Using an accrual measurement date of December 31, 2015 and 2014, plan assets and benefit obligation activity for the Pension Plan are listed below:

(In thousands)	2015	2014
<b>Change in fair value of plan assets</b>		
Fair value at beginning of measurement period	\$160,598	\$152,739
Actual return on plan assets	(58)	15,511
Benefits paid	(7,042)	(7,652)
<b>Fair value at end of measurement period</b>	<b>\$153,498</b>	<b>\$160,598</b>
<b>Change in benefit obligation</b>		
Projected benefit obligation at beginning of measurement period	\$109,328	\$ 89,179
Service cost	5,368	4,331
Interest cost	4,695	4,577
Actuarial (gains) loss	(10,104)	18,893
Benefits paid	(7,042)	(7,652)
<b>Projected benefit obligation at the end of measurement period</b>	<b>\$102,245</b>	<b>\$109,328</b>
<b>Funded status at end of year (fair value of plan assets less benefit obligation)</b>	<b>\$ 51,253</b>	<b>\$ 51,270</b>

The asset allocation for the Pension Plan as of each measurement date, by asset category, was as follows:

Asset Category	Target Allocation	Percentage of Plan Assets	
		2015	2014
Equity securities	50% – 100%	85%	85%
Fixed income and cash equivalents	remaining balance	15%	15%
<b>Total</b>	—	<b>100%</b>	<b>100%</b>

The investment policy, as established by the Retirement Plan Committee, is to invest assets according to the target allocation stated above. Assets will be reallocated periodically based on the investment strategy of the Retirement Plan Committee. The investment policy is reviewed periodically.

The expected long-term rate of return on plan assets used to measure the benefit obligation was 7.25% as of December 31, 2015 and 2014. This return was based on the expected return of each of the asset categories, weighted based on the median of the target allocation for each class.

The accumulated benefit obligation for the Pension Plan was \$86.1 million and \$92.0 million at December 31, 2015 and 2014, respectively.

On November 17, 2009, the Park Pension Plan completed the purchase of 115,800 common shares of Park for \$7.0 million or \$60.45 per share. At December 31, 2015 and 2014, the fair value of the 115,800 common shares held by the Pension Plan was \$10.5 million, or \$90.48 per share and \$10.2 million, or \$88.48 per share, respectively.

The weighted average assumptions used to determine benefit obligations at December 31, 2015, 2014 and 2013 were as follows:

	2015	2014	2013
Discount rate	4.88%	4.42%	5.30%
Rate of compensation increase			
Under age 30	10.00%	10.00%	10.00%
Ages 30–39	6.00%	6.00%	6.00%
Ages 40 and over	3.00%	3.00%	3.00%

The estimated future pension benefit payments reflecting expected future service for the next ten years are shown below (in thousands):

	2015
2016	\$ 5,010
2017	5,321
2018	5,800
2019	6,780
2020	7,317
2021 – 2025	45,831
<b>Total</b>	<b>\$76,059</b>

The following table shows ending balances of accumulated other comprehensive loss at December 31, 2015 and 2014.

(In thousands)	2015	2014
Prior service cost	\$ —	\$ (15)
Net actuarial loss	(23,618)	(22,855)
<b>Total</b>	<b>(23,618)</b>	<b>(22,870)</b>
Deferred taxes	8,267	8,005
<b>Accumulated other comprehensive loss</b>	<b>\$(15,351)</b>	<b>\$(14,865)</b>

Using an actuarial measurement date of December 31 for 2015, 2014 and 2013, components of net periodic benefit cost and other amounts recognized in other comprehensive (loss) income were as follows:

(In thousands)	2015	2014	2013
<b>Components of net periodic benefit cost and other amounts recognized in other comprehensive (loss) income</b>			
Service cost	\$(5,368)	\$ (4,331)	\$ (4,817)
Interest cost	(4,695)	(4,577)	(4,223)
Expected return on plan assets	11,420	10,869	9,536
Amortization of prior service cost	(15)	(19)	(20)
Recognized net actuarial loss	(637)	—	(2,703)
<b>Net periodic benefit income (cost)</b>	<b>\$ 705</b>	<b>\$ 1,942</b>	<b>\$(2,227)</b>
Change to net actuarial (loss) gain for the period	\$(1,400)	\$(14,276)	\$30,409
Amortization of prior service cost	15	19	20
Amortization of net loss	637	—	2,703
<b>Total recognized in other comprehensive (loss) income</b>	<b>(748)</b>	<b>(14,257)</b>	<b>33,132</b>
<b>Total recognized in net benefit cost and other comprehensive (loss) income</b>	<b>\$ (43)</b>	<b>\$(12,315)</b>	<b>\$30,905</b>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

There are no estimated prior service costs for the Pension Plan to be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year. The estimated net actuarial loss expected to be recognized in the next fiscal year is \$773,000.

The weighted average assumptions used to determine net periodic benefit cost for the years ended December 31, 2015, 2014 and 2013 are listed below:

	2015	2014	2013
Discount rate	4.42%	5.30%	4.47%
Rate of compensation increase			
Under age 30	10.00%	10.00%	10.00%
Ages 30 – 39	6.00%	6.00%	6.00%
Ages 40 and over	3.00%	3.00%	3.00%
Expected long-term return on plan assets	7.25%	7.25%	7.50%

The Pension Plan maintains cash in a PNB savings account. The Pension Plan cash balance was \$0.7 million at December 31, 2015.

GAAP defines fair value as the price that would be received by Park for an asset or paid by Park to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date, using the most advantageous market for the asset or liability. The fair values of equity securities, consisting of mutual fund investments and common stock (U.S. large cap) held by the Pension Plan and the fixed income and cash equivalents, are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). The fair value of Pension Plan assets at December 31, 2015 was \$153.5 million. At December 31, 2015, \$135.0 million of equity investments and cash in the Pension Plan were categorized as Level 1 inputs; \$18.5 million of plan investments in corporate (U.S. large cap) and U.S. Government sponsored entity bonds were categorized as Level 2 inputs, as fair value was based on quoted market prices of comparable instruments; and no investments were categorized as Level 3 inputs. The fair value of Pension Plan assets was \$160.6 million at December 31, 2014. At December 31, 2014, \$141.1 million of investments in the Pension Plan were categorized as Level 1 inputs; \$19.5 million were categorized as Level 2; and no investments were categorized as Level 3.

The Corporation has a voluntary salary deferral plan covering substantially all of the employees of the Corporation and its subsidiaries. Eligible employees may contribute a portion of their compensation subject to a maximum statutory limitation. The Corporation provides a matching contribution established annually by the Corporation. Contribution expense for the Corporation was \$1.2 million, \$1.1 million, and \$1.1 million for 2015, 2014 and 2013, respectively.

The Corporation has entered into Supplemental Executive Retirement Benefits 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 accrued benefit cost for the SERP Agreements totaled \$8.0 million and \$7.6 million for 2015 and 2014, respectively. The expense for the Corporation was \$1.1 million for 2015, \$1.5 million for 2014 and \$28,000 for 2013.

### 19. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's deferred tax assets and liabilities are as follows:

December 31 (in thousands)	2015	2014
<b>Deferred tax assets:</b>		
Allowance for loan losses	\$19,773	\$19,023
Accumulated other comprehensive loss – Pension Plan	8,266	8,005
Accumulated other comprehensive loss – unrealized losses on securities	157	—
Deferred compensation	3,908	3,820
OREO valuation adjustments	2,418	3,984
Net deferred loan fees	1,204	933
Deferred contract bonus	1,031	—
Other	4,171	4,338
<b>Total deferred tax assets</b>	<b>\$40,928</b>	<b>\$40,103</b>
<b>Deferred tax liabilities:</b>		
Accumulated other comprehensive income – unrealized gains on securities	\$ —	\$ 677
Deferred investment income	10,199	10,199
Pension plan	26,205	25,949
Mortgage servicing rights	3,153	3,015
Partnership adjustments	560	865
Other	872	804
<b>Total deferred tax liabilities</b>	<b>\$40,989</b>	<b>\$41,509</b>
<b>Net deferred tax asset (liability)</b>	<b>\$ (61)</b>	<b>\$ (1,406)</b>

Park performs an analysis to determine if a valuation allowance against deferred tax assets is required in accordance with GAAP. Management has determined that it is not required to establish a valuation allowance against the December 31, 2015 or 2014 deferred tax assets in accordance with GAAP since it is more likely than not that the deferred tax assets will be fully utilized in future periods.

The components of the provision for federal income taxes are shown below:

December 31 (In thousands)	2015	2014	2013
<b>Currently payable</b>			
Federal	\$32,817	\$33,931	\$34,435
<b>Deferred</b>			
Federal	(250)	2,528	(1,932)
<b>Total</b>	<b>\$32,567</b>	<b>\$36,459</b>	<b>\$32,503</b>

The following is a reconciliation of income tax expense to the amount computed at the statutory rate of 35% for the years ended December 31, 2015, 2014 and 2013.

	2015	2014	2013
Statutory federal corporate tax rate	35.0%	35.0%	35.0%
Changes in rates resulting from:			
Tax-exempt interest income, net of disallowed interest	(0.5)%	(0.5)%	(0.8)%
Bank owned life insurance	(1.8)%	(1.4)%	(1.6)%
Investments in qualified affordable housing projects, net of tax benefits	(1.9)%	(1.6)%	(1.7)%
Other tax credits	(0.9)%	—	—
KSOP dividend deduction	(1.0)%	(1.0)%	(1.1)%
Other	(0.2)%	(0.2)%	(0.1)%
<b>Effective tax rate</b>	<b>28.7%</b>	<b>30.3%</b>	<b>29.7%</b>

Park and its subsidiaries do not pay state income tax to the state of Ohio, but pay a franchise tax based on equity. The franchise tax expense is included in the state tax expense and is shown in "State taxes" on Park's Consolidated Statements of Income.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Unrecognized Tax Benefits

The following is a reconciliation of the beginning and ending amount of unrecognized tax benefits.

(In thousands)	2015	2014	2013
<b>January 1 Balance</b>	<b>\$532</b>	\$518	\$517
Additions based on tax positions related to the current year	80	76	74
Additions for tax positions of prior years	16	14	4
Reductions for tax positions of prior years	—	—	—
Reductions due to statute of limitations	(70)	(76)	(77)
<b>December 31 Balance</b>	<b>\$558</b>	\$532	\$518

The amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in the future periods at December 31, 2015, 2014 and 2013 was \$432,000, \$413,000 and \$403,000, respectively. Park does not expect the total amount of unrecognized tax benefits to significantly increase or decrease during the next year.

The (income)/expense related to interest and penalties recorded on unrecognized tax benefits in the Consolidated Statements of Income for the years ended December 31, 2015 and 2013 was \$2,000 and \$(500), respectively. There was no expense related to interest and penalties for the year ending 2014. The amount accrued for interest and penalties at December 31, 2015, 2014 and 2013 was \$69,000, \$67,000 and \$67,000, respectively.

Park and its subsidiaries are subject to U.S. federal income tax and income tax in various state jurisdictions. The Corporation is subject to routine audits of tax returns by the Internal Revenue Service and states in which we conduct business. No material adjustments have been made on closed federal and state tax audits. All tax years ending prior to December 31, 2012 are closed to examination by the federal and state taxing authorities.

## 20. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) components, net of tax, are shown in the following table for the years ended December 31, 2015, 2014 and 2013.

Year ended December 31 (In thousands)	Changes in Pension Plan Assets and Benefit Obligations	Unrealized Gains and Losses on Available-for-Sale Securities	Total
<b>Beginning balance at December 31, 2014</b>	<b>\$(14,865)</b>	\$ 1,257	<b>\$(13,608)</b>
Other comprehensive (loss) before reclassifications	(910)	(1,549)	(2,459)
Amounts reclassified from accumulated other comprehensive loss	424	—	424
Net current period other comprehensive (loss)	(486)	(1,549)	(2,035)
<b>Ending balance at December 31, 2015</b>	<b>\$(15,351)</b>	<b>\$ (292)</b>	<b>\$(15,643)</b>
<b>Beginning balance at December 31, 2013</b>	<b>\$ (5,598)</b>	\$ (29,821)	<b>\$(35,419)</b>
Other comprehensive (loss) gain before reclassifications	(9,279)	30,325	21,046
Amounts reclassified from accumulated other comprehensive loss	12	753	765
Net current period other comprehensive (loss) income	(9,267)	31,078	21,811
<b>Ending balance at December 31, 2014</b>	<b>\$(14,865)</b>	<b>\$ 1,257</b>	<b>\$(13,608)</b>

Year ended December 31 (In thousands)	Changes in Pension Plan Assets and Benefit Obligations	Unrealized Gains and Losses on Available-for-Sale Securities	Total
Beginning balance at December 31, 2012	\$(27,134)	\$ 9,616	\$(17,518)
Other comprehensive gain (loss) before reclassifications	19,766	(39,448)	(19,682)
Amounts reclassified from accumulated other comprehensive loss	1,770	11	1,781
Net current period other comprehensive income (loss)	21,536	(39,437)	(17,901)
<b>Ending balance at December 31, 2013</b>	<b>\$ (5,598)</b>	<b>\$(29,821)</b>	<b>\$(35,419)</b>

The following table provides information concerning amounts reclassified out of accumulated other comprehensive loss for the years ended December 31, 2015, 2014 and 2013:

December 31 (In thousands)	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)			Affected Line Item in the Consolidated Statement of Income
	2015	2014	2013	
<b>Amortization of defined benefit pension items</b>				
Amortization of prior service cost	\$ 15	\$ 19	\$ 20	Employee benefits
Amortization of net loss	637	—	2,703	Employee benefits
<b>Total income before income taxes</b>	<b>\$652</b>	<b>\$ 19</b>	<b>\$2,723</b>	<b>Total income before income taxes</b>
Federal income taxes	228	7	953	Federal income taxes
<b>Net of tax</b>	<b>\$424</b>	<b>\$ 12</b>	<b>\$1,770</b>	<b>Net of tax</b>
<b>Unrealized gains and losses on available for sale securities</b>				
Loss on sale of investment securities	\$ —	\$ 1,158	\$ —	Gain (loss) on sale of investment securities
Other than temporary impairment	—	—	17	Miscellaneous expense
<b>Total income before income taxes</b>	<b>\$ —</b>	<b>\$ 1,158</b>	<b>\$ 17</b>	<b>Total income before income taxes</b>
Federal income taxes	—	405	6	Federal income taxes
<b>Net of tax</b>	<b>\$ —</b>	<b>\$ 753</b>	<b>\$ 11</b>	<b>Net of tax</b>

## 21. EARNINGS PER COMMON SHARE

GAAP requires the reporting of basic and diluted earnings per common share. Basic earnings per common share excludes any dilutive effects of restricted stock units.

The following table sets forth the computation of basic and diluted earnings per common share:

Year ended December 31 (in thousands, except share data)	2015	2014	2013
<b>Numerator:</b>			
Net income available to common shareholders	\$81,012	\$83,957	\$76,869
<b>Denominator:</b>			
Basic earnings per common share:			
Weighted-average common shares outstanding	15,364,281	15,394,971	15,412,365
Effect of dilutive securities – performance based restricted stock units	40,459	18,861	—
Diluted earnings per common share:			
Adjusted weighted-average shares and assumed vesting	15,404,740	15,413,832	15,412,365
<b>Earnings per common share:</b>			
Basic earnings per common share	\$5.27	\$5.45	\$4.99
Diluted earnings per common share	\$5.26	\$5.45	\$4.99

Park awarded 23,025 and 21,975 PBRsUs to certain employees during the years ended December 31, 2015 and 2014, respectively. The PBRsUs vest based on service and performance conditions. The dilutive effect of the PBRsUs was the addition of 40,459 and 18,861 common shares for the years ended December 31, 2015 and 2014, respectively.

During the years ended December 31, 2015 and 2014, Park repurchased 71,700 and 29,700 common shares, respectively, to fund the PBRsUs and common shares awarded to directors of Park and to directors of Park's subsidiary PNB (and its divisions).

## 22. DIVIDEND RESTRICTIONS

Bank regulators limit the amount of dividends a subsidiary bank can declare in any calendar year without obtaining prior approval. At December 31, 2015, approximately \$107.5 million of the total shareholders' equity of PNB was available for the payment of dividends to the Corporation, without approval by the applicable regulatory authorities.

## 23. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

The Corporation is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include loan commitments and standby letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Since many of the loan commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers.

The total amounts of off-balance sheet financial instruments with credit risk were as follows:

December 31 (In thousands)	2015	2014
Loan commitments	<b>\$888,411</b>	\$869,793
Standby letters of credit	<b>12,326</b>	12,473

The loan commitments are generally for variable rates of interest.

The Corporation grants retail, commercial and commercial real estate loans to customers primarily located in Ohio. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Although the Corporation has a diversified loan portfolio, a substantial portion of the borrowers' ability to honor their contracts is dependent upon the economic conditions in each borrower's geographic location and industry.

## 24. LOAN SERVICING

Park serviced sold mortgage loans of \$1,276 million at December 31, 2015, compared to \$1,265 million at December 31, 2014 and \$1,326 million at December 31, 2013. At December 31, 2015, \$5.4 million of the sold mortgage loans were sold with recourse compared to \$7.0 million at December 31, 2014. Management closely monitors the delinquency rates on the mortgage loans sold with recourse. As of December 31, 2015 and 2014, management had established a reserve of \$454,000 and \$379,000, respectively, to account for future loan repurchases.

The amortization of mortgage loan servicing rights is included within "Other service income." Generally, mortgage servicing rights are capitalized and amortized on an individual sold loan basis. When a sold mortgage loan is paid off, the related mortgage servicing rights are fully amortized.

Activity for mortgage servicing rights and the related valuation allowance follows:

December 31 (In thousands)	2015	2014	2013
<b>Mortgage servicing rights:</b>			
Carrying amount, net, beginning of year	<b>\$8,613</b>	\$ 9,013	\$ 7,763
Additions	<b>1,748</b>	1,026	2,436
Amortization	<b>(1,637)</b>	(1,631)	(2,479)
Change in valuation allowance	<b>284</b>	205	1,293
<b>Carrying amount, net, end of year</b>	<b>\$9,008</b>	\$ 8,613	\$ 9,013
<b>Valuation allowance:</b>			
Beginning of year	<b>\$ 826</b>	\$ 1,031	\$ 2,324
Change in valuation allowance	<b>(284)</b>	(205)	(1,293)
<b>End of year</b>	<b>\$ 542</b>	\$ 826	\$ 1,031

The fair value of mortgage servicing rights was \$9.6 million and \$9.1 million at December 31, 2015 and 2014, respectively. The fair value of mortgage servicing rights at December 31, 2015 was established using a discount rate of 10% and constant prepayment speeds ranging from 6.3% to 22.0%. The fair value of mortgage servicing rights at December 31, 2014 was established using a discount rate of 10% and constant prepayment speeds ranging from 5.7% to 22.3%.

Servicing fees included in other service income were \$3.4 million, \$3.5 million and \$3.6 million for the years ended December 31, 2015, 2014 and 2013, respectively.

## 25. 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 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 December 31, 2015 Using:				
(In thousands)	Level 1	Level 2	Level 3	Balance at 12/31/15
<b>ASSETS</b>				
<b>Investment Securities</b>				
Obligations of U.S. Treasury and other U.S. Government sponsored entities	\$ —	\$522,063	\$ —	\$522,063
U.S. Government sponsored entities' asset-backed securities	—	911,493	—	911,493
Equity securities	1,941	—	769	2,710
Mortgage loans held for sale	—	7,306	—	7,306
Mortgage IRLCs	—	165	—	165
<b>LIABILITIES</b>				
Fair value swap	\$ —	\$ —	\$226	\$ 226
Fair Value Measurements at December 31, 2014 Using:				
(In thousands)	Level 1	Level 2	Level 3	Balance at 12/31/14
<b>ASSETS</b>				
<b>Investment Securities</b>				
Obligations of U.S. Treasury and other U.S. Government sponsored entities	\$ —	\$538,064	\$ —	\$538,064
U.S. Government sponsored entities' asset-backed securities	—	761,153	—	761,153
Equity securities	1,922	—	776	2,698
Mortgage loans held for sale	—	5,264	—	5,264
Mortgage IRLCs	—	70	—	70
<b>LIABILITIES</b>				
Fair value swap	\$ —	\$ —	\$226	\$ 226

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

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

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

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

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

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

The table below is a reconciliation of the beginning and ending balances of the Level 3 inputs for the years ended December 31, 2015 and 2014, for financial instruments measured on a recurring basis and classified as Level 3:

Level 3 Fair Value Measurements		
(In thousands)	Equity Securities	Fair Value Swap
<b>Balance at January 1, 2015</b>		
	\$776	\$(226)
Total gains (losses)		
Included in earnings – realized	—	—
Included in earnings – unrealized	—	—
Included in other comprehensive loss	(7)	—
Purchases, sales, issuances and settlements, other, net	—	—
Re-evaluation of fair value swap	—	—
<b>Balance at December 31, 2015</b>	\$769	\$(226)
<b>Balance at January 1, 2014</b>		
	\$759	\$(135)
Total gains (losses)		
Included in earnings – realized	—	—
Included in earnings – unrealized	—	—
Included in other comprehensive income	17	—
Purchases, sales, issuances and settlements, other, net	—	—
Re-evaluation of fair value swap	—	(91)
<b>Balance at December 31, 2014</b>	\$776	\$(226)

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

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

- Real estate appraisals typically incorporate measures such as recent sales prices for comparable properties. Appraisers may make adjustments to the sales prices of the comparable properties as deemed appropriate based on the age, condition or general characteristics of the subject property. Management generally applies a 15% discount to real estate appraised values which management expects will cover all disposition costs (including selling costs). This 15% is based on historical discounts to appraised values on sold OREO properties.
- Income approach appraisals typically incorporate the annual net operating income of the business divided by an appropriate capitalization rate, as determined by the appraiser. Management generally applies a 15% discount to income approach appraised values which management expects will cover all disposition costs (including selling costs).
- Lot development loan appraisals are typically performed using a discounted cash flow analysis. Appraisers determine an anticipated absorption period and a discount rate that takes into account an investor's required rate of return based on recent comparable sales. Management generally applies a 6% discount to lot development appraised values, which is an additional discount above the net present value calculation included in the appraisal, to account for selling costs.

**MSRs:** MSRs are carried at the lower of cost or fair value. MSRs do not trade in active, open markets with readily observable prices. For example, sales of MSRs do occur, but precise terms and conditions typically are not readily available. As such, management, with the assistance of a third-party specialist, determines fair value based on the discounted value of the future cash flows estimated to be received. Significant inputs include the discount rate and assumed prepayment speeds utilized. 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.

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

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

Fair Value Measurements at December 31, 2015 Using:				
(In thousands)	Level 1	Level 2	Level 3	Balance at 12/31/15
<b>Impaired loans:</b>				
Commercial real estate	\$ —	\$ —	\$ 3,698	\$ 3,698
Construction real estate:				
SEPH commercial land and development	—	—	2,044	2,044
Remaining commercial	—	—	1,872	1,872
Residential real estate	—	—	1,882	1,882
<b>Total impaired loans</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 9,496</b>	<b>\$ 9,496</b>
Mortgage servicing rights	\$ —	\$ 1,867	\$ —	\$ 1,867
<b>Other real estate owned:</b>				
Commercial real estate	—	—	2,796	2,796
Construction real estate	—	—	3,387	3,387
Residential real estate	—	—	2,332	2,332
<b>Total other real estate owned</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 8,515</b>	<b>\$ 8,515</b>
Fair Value Measurements at December 31, 2014 Using:				
(In thousands)	Level 1	Level 2	Level 3	Balance at 12/31/14
<b>Impaired loans:</b>				
Commercial real estate	\$ —	\$ —	\$ 8,481	\$ 8,481
Construction real estate:				
SEPH commercial land and development	—	—	2,078	2,078
Remaining commercial	—	—	3,483	3,483
Residential real estate	—	—	2,921	2,921
<b>Total impaired loans</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$16,963</b>	<b>\$16,963</b>
Mortgage servicing rights	\$ —	\$ 2,928	\$ —	\$ 2,928
<b>Other real estate owned:</b>				
Commercial real estate	—	—	1,470	1,470
Construction real estate	—	—	6,473	6,473
Residential real estate	—	—	2,369	2,369
<b>Total other real estate owned</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$10,312</b>	<b>\$10,312</b>

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.

(In thousands)	Recorded Investment	Prior Charge-offs	Specific Valuation Allowance	Carrying Balance
<b>Year ended December 31, 2015</b>				
Impaired loans recorded at fair value	\$ 11,783	\$10,512	\$ 2,287	\$ 9,496
Remaining impaired loans	68,881	18,193	1,904	66,977
<b>Total impaired loans</b>	<b>\$ 80,664</b>	<b>\$28,705</b>	<b>\$ 4,191</b>	<b>\$ 76,473</b>
<b>Year ended December 31, 2014</b>				
Impaired loans recorded at fair value	\$ 19,643	\$19,731	\$ 2,680	\$ 16,963
Remaining impaired loans	54,069	12,749	980	53,089
<b>Total impaired loans</b>	<b>\$ 73,712</b>	<b>\$32,480</b>	<b>\$ 3,660</b>	<b>\$ 70,052</b>

The expense of credit adjustments related to impaired loans carried at fair value for the years ended December 31, 2015, 2014 and 2013 was \$2.1 million, \$3.0 million, and \$8.1 million, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MSRs totaled \$9.0 million at December 31, 2015. Of this \$9.0 million MSR carrying balance, \$1.9 million was recorded at fair value and included a valuation allowance of \$0.5 million. The remaining \$7.1 million was recorded at cost, as the fair value exceeded cost at December 31, 2015. At December 31, 2014, MSRs totaled \$8.6 million. Of this \$8.6 million MSR carrying balance, \$2.9 million was recorded at fair value and included a valuation allowance of \$0.8 million. The remaining \$5.7 million was recorded at cost, as the fair value exceeded cost at December 31, 2014. Income related to MSRs carried at fair value for the years ended December 31, 2015, 2014 and 2013 was \$0.3 million, \$0.2 million and \$1.3 million, respectively.

Total OREO held by Park at December 31, 2015 and 2014 was \$18.7 million and \$22.6 million, respectively. Approximately 46% of OREO held by Park at December 31, 2015 and 2014 was carried at fair value due to fair value adjustments made subsequent to the initial OREO measurement. At December 31, 2015 and 2014, OREO held at fair value, less estimated selling costs, amounted to \$8.5 million and \$10.3 million, respectively. The net expense related to OREO fair value adjustments was \$1.6 million, \$2.4 million and \$3.2 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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

(In thousands)	Fair Value	Valuation Technique	Unobservable Input(s)	Range (Weighted Average)
<b>December 31, 2015</b>				
Impaired loans:				
Commercial real estate	\$3,698	Sales comparison approach Income approach Cost approach	Adj to comparables Capitalization rate Accumulated depreciation	0.0% – 45.9% (20.3%) 7.0% – 13.3% (9.5%) 50.0% (50.0%)
Construction real estate:				
SEPH commercial land and development	2,044	Sales comparison approach Bulk sale approach	Adj to comparables Discount rate	5.0% – 40.0% (22.1%) 10.7% (10.7%)
Remaining commercial	1,872	Sales comparison approach Bulk sale approach	Adj to comparables Discount rate	0.0% – 25.3% (1.0%) 10.0% – 10.7% (10.0%)
Residential real estate	1,882	Sales comparison approach Income approach Cost approach	Adj to comparables Capitalization rate Accumulated depreciation	0.0% – 96.7% (12.5%) 3.8% – 10.1% (9.1%) 33.3% – 50.0% (43.4%)
Other real estate owned:				
Commercial real estate	2,796	Sales comparison approach Income approach	Adj to comparables Capitalization rate	2.0% – 71.0% (26.9%) 9.5% (9.5%)
Construction real estate	3,387	Sales comparison approach Bulk sale approach	Adj to comparables Discount rate	0.0% – 85.0% (24.3%) 15.0% (15.0%)
Residential real estate	2,332	Sales comparison approach	Adj to comparables	0.1% – 61.8% (23.0%)
<b>December 31, 2014</b>				
Impaired loans:				
Commercial real estate	\$8,481	Sales comparison approach Income approach Cost approach	Adj to comparables Capitalization rate Accumulated depreciation	0.0% – 84.0% (38.8%) 8.0% – 9.5% (9.4%) 23.0% (23.0%)
Construction real estate:				
SEPH commercial land and development	2,078	Sales comparison approach Bulk sale approach	Adj to comparables Discount rate	5.0% – 35.0% (17.5%) 10.8% (10.8%)
Remaining commercial	3,483	Sales comparison approach Bulk sale approach	Adj to comparables Discount rate	0.2% – 76.0% (45.4%) 10.0% – 22.0% (16.5%)
Residential real estate	2,921	Sales comparison approach Income approach	Adj to comparables Capitalization rate	0.0% – 120.6% (11.1%) 7.9% – 10.0% (8.0%)
Other real estate owned:				
Commercial real estate	1,470	Sales comparison approach Income approach Cost approach	Adj to comparables Capitalization rate Accumulated depreciation	0.0% – 87.0% (30.5%) 8.4% – 10.0% (9.4%) 60.0% – 95.0% (77.5%)
Construction real estate	6,473	Sales comparison approach Bulk sale approach	Adj to comparables Discount rate	0.0% – 82.9% (27.1%) 15.0% (15.0%)
Residential real estate	2,369	Sales comparison approach Income approach	Adj to comparables Capitalization rate	0.0% – 38.3% (10.1%) 6.8% – 7.8% (7.6%)

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

**Cash and cash equivalents:** The carrying amounts reported in the Consolidated Balance Sheets for cash and short-term instruments approximate those assets' fair values.

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

**Loans receivable:** For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for certain mortgage loans (e.g., one-to-four family residential)

are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. The fair values for other loans are estimated using discounted cash flow analyses, based upon interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The methods utilized to estimate fair value do not necessarily represent an exit price.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

**Subordinated notes:** Fair values for subordinated notes are estimated using a discounted cash flow calculation that applies interest rate spreads currently being offered on similar debt structures to a schedule of monthly maturities.

The fair value of financial instruments at December 31, 2015 and December 31, 2014, was as follows:

### Fair Value Measurements at December 31, 2015:

(In thousands)	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Financial assets:</b>					
Cash and money market instruments	\$ 149,459	\$ 149,459	\$ —	\$ —	\$ 149,459
Investment securities	1,585,568	1,941	1,584,984	769	1,587,694
Accrued interest receivable – securities	4,436	—	4,436	—	4,436
Accrued interest receivable – loans	14,239	—	—	14,239	14,239
Mortgage loans held for sale	7,306	—	7,306	—	7,306
Impaired loans carried at fair value	9,496	—	—	9,496	9,496
Mortgage IRLCs	165	—	165	—	165
Other loans	4,994,624	—	—	4,997,318	4,997,318
<b>Loans receivable, net</b>	<b>\$5,011,591</b>	<b>\$ —</b>	<b>\$ 7,471</b>	<b>\$5,006,814</b>	<b>\$5,014,285</b>
<b>Financial liabilities:</b>					
Non-interest bearing checking accounts	\$1,404,032	\$1,404,032	\$ —	\$ —	\$1,404,032
Interest bearing transaction accounts	1,107,200	1,107,200	—	—	1,107,200
Savings accounts	1,544,708	1,544,708	—	—	1,544,708
Time deposits	1,290,412	—	1,295,329	—	1,295,329
Other	1,290	1,290	—	—	1,290
<b>Total deposits</b>	<b>\$5,347,642</b>	<b>\$4,057,230</b>	<b>\$1,295,329</b>	<b>\$ —</b>	<b>\$5,352,559</b>
Short-term borrowings	\$ 394,242	\$ —	\$ 394,242	\$ —	\$ 394,242
Long-term debt	738,105	—	771,420	—	771,420
Subordinated notes	45,000	—	41,596	—	41,596
Accrued interest payable – deposits	987	66	921	—	987
Accrued interest payable – debt/borrowings	1,351	4	1,347	—	1,351
<b>Derivative financial instruments:</b>					
Fair value swap	\$ 226	\$ —	\$ —	\$ 226	\$ 226

### Fair Value Measurements at December 31, 2014:

(In thousands)	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Financial assets:</b>					
Cash and money market instruments	\$ 237,699	\$ 237,699	\$ —	\$ —	\$ 237,699
Investment securities	1,442,477	1,922	1,442,708	775	1,445,405
Accrued interest receivable – securities	4,048	—	4,048	—	4,048
Accrued interest receivable – loans	13,629	—	—	13,629	13,629
Mortgage loans held for sale	5,264	—	5,264	—	5,264
Impaired loans carried at fair value	16,963	—	—	16,963	16,963
Mortgage IRLCs	70	—	70	—	70
Other loans	4,753,033	—	—	4,757,461	4,757,461
<b>Loans receivable, net</b>	<b>\$4,775,330</b>	<b>\$ —</b>	<b>\$ 5,334</b>	<b>\$4,774,424</b>	<b>\$4,779,758</b>
<b>Financial liabilities:</b>					
Non-interest bearing checking accounts	\$1,269,296	\$1,269,296	\$ —	\$ —	\$1,269,296
Interest bearing transaction accounts	1,122,079	1,122,079	—	—	1,122,079
Savings accounts	1,325,445	1,325,445	—	—	1,325,445
Time deposits	1,409,911	—	1,422,885	—	1,422,885
Other	1,269	1,269	—	—	1,269
<b>Total deposits</b>	<b>\$5,128,000</b>	<b>\$3,718,089</b>	<b>\$1,422,885</b>	<b>\$ —</b>	<b>\$5,140,974</b>
Short-term borrowings	\$ 276,980	\$ —	\$ 276,980	\$ —	\$ 276,980
Long-term debt	786,602	—	827,500	—	827,500
Subordinated notes	45,000	—	42,995	—	42,995
Accrued interest payable – deposits	1,125	14	1,111	—	1,125
Accrued interest payable – debt/borrowings	1,426	3	1,423	—	1,426
<b>Derivative financial instruments:</b>					
Fair value swap	\$ 226	\$ —	\$ —	\$ 226	\$ 226

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 26. CAPITAL RATIOS

Financial institution regulators have established guidelines for minimum capital ratios for banks, thrifts and bank holding companies. During the first quarter of 2015, Park adopted the new Basel III regulatory capital framework as approved by the federal banking agencies. The adoption of this new framework modified the calculation of the various capital ratios, added a new ratio, common equity tier 1, and revised the adequately and well capitalized thresholds. Additionally, under the new rule, in order to avoid limitations on capital distributions, including dividend payments, Park must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The amounts shown below as the adequately capitalized ratio plus capital conservation buffer includes the fully phased-in 2.50% buffer.

PNB met each of the well capitalized ratio guidelines at December 31, 2015. The following table indicates the capital ratios for PNB and Park at December 31, 2015 and 2014.

	Leverage	Tier 1 Risk-Based	Common Equity Tier 1	Total Risk-Based
<b>As of December 31, 2015:</b>				
The Park National Bank	7.06%	9.83%	9.83%	11.37%
Park National Corporation	9.22%	12.82%	12.54%	14.49%
Adequately capitalized ratio	4.00%	6.00%	4.50%	8.00%
Adequately capitalized ratio plus capital conservation buffer	4.00%	8.50%	7.00%	10.50%
Well capitalized ratio (PNB only)	5.00%	8.00%	6.50%	10.00%
<b>As of December 31, 2014:</b>				
The Park National Bank	6.96%	10.13%	N/A	11.74%
Park National Corporation	9.25%	13.39%	N/A	15.14%
Adequately capitalized ratio	4.00%	4.00%	N/A	8.00%
Well capitalized ratio (PNB only)	5.00%	6.00%	N/A	10.00%

Failure to meet the minimum requirements above could cause the FRB to take action. PNB is also subject to the capital requirements of its primary regulator, the OCC. As of December 31, 2015 and 2014, Park and PNB were well-capitalized and met all capital requirements to which each was then subject. There are no conditions or events since PNB's most recent regulatory report filings, that management believes have changed the risk categories for PNB.

The following table reflects various measures of capital for Park and PNB:

(In thousands)	Actual Amount	Ratio	To Be Adequately Capitalized		To Be Well Capitalized	
			Amount	Ratio	Amount	Ratio
<b>At December 31, 2015:</b>						
<b>Total risk-based capital (to risk-weighted assets)</b>						
PNB	\$588,467	11.37%	\$414,079	8.00%	\$517,599	10.00%
Park	758,988	14.49%	419,080	8.00%	N/A	N/A
<b>Tier 1 risk-based capital (to risk-weighted assets)</b>						
PNB	\$508,763	9.83%	\$310,560	6.00%	\$414,079	8.00%
Park	671,664	12.82%	314,310	6.00%	N/A	N/A
<b>Leverage ratio (to average total assets)</b>						
PNB	\$508,763	7.06%	\$288,147	4.00%	\$360,183	5.00%
Park	671,664	9.22%	291,449	4.00%	N/A	N/A
<b>Common equity Tier 1 (to risk-weighted assets)</b>						
PNB	\$508,763	9.83%	\$232,920	4.50%	\$336,439	6.50%
Park	656,664	12.54%	235,732	4.50%	N/A	N/A
<b>At December 31, 2014:</b>						
<b>Total risk-based capital (to risk-weighted assets)</b>						
PNB	\$563,188	11.74%	\$383,634	8.00%	\$479,542	10.00%
Park	739,517	15.14%	390,822	8.00%	N/A	N/A
<b>Tier 1 risk-based capital (to risk-weighted assets)</b>						
PNB	\$485,943	10.13%	\$191,817	4.00%	\$287,725	6.00%
Park	654,339	13.39%	195,411	4.00%	N/A	N/A
<b>Leverage ratio (to average total assets)</b>						
PNB	\$485,943	6.96%	\$279,210	4.00%	\$349,013	5.00%
Park	654,339	9.25%	282,992	4.00%	N/A	N/A
<b>Common equity Tier 1 (to risk-weighted assets)</b>						
PNB	N/A	N/A	N/A	N/A	N/A	N/A
Park	N/A	N/A	N/A	N/A	N/A	N/A



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 27. 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), SEPH and GFSC.

GAAP requires management 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 a company's performance, better understand the potential for future cash flows, and make more informed judgments about the company as a whole. Park's current operating segments are in line with GAAP 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.

Operating results for the year ended December 31, 2015 (In thousands)					
	PNB	GFSC	SEPH	All Other	Total
Net interest income (loss)	\$ 220,879	\$ 6,588	\$ (74)	\$ 239	\$ 227,632
Provision for (recovery of) loan losses	7,665	1,415	(4,090)	—	4,990
Other income	75,188	2	1,848	513	77,551
Other expense	167,476	2,984	6,182	9,972	186,614
Income (loss) before taxes	120,926	2,191	(318)	(9,220)	113,579
Income taxes (benefit)	36,581	768	(111)	(4,671)	32,567
<b>Net income (loss)</b>	<b>\$ 84,345</b>	<b>\$ 1,423</b>	<b>\$ (207)</b>	<b>\$ (4,549)</b>	<b>\$ 81,012</b>
<b>Balances at December 31, 2015:</b>					
Assets	\$7,229,764	\$ 35,793	\$ 33,541	\$ 12,256	\$7,311,354
Loans	5,029,072	35,469	15,153	(11,609)	5,068,085
Deposits	5,447,293	4,627	—	(104,278)	5,347,642
Operating results for the year ended December 31, 2014 (In thousands)					
	PNB	GFSC	SEPH	All Other	Total
Net interest income (loss)	\$ 218,641	\$ 7,457	\$ 958	\$ (2,012)	\$ 225,044
Provision for (recovery of) loan losses	3,517	1,544	(12,394)	—	(7,333)
Other income (loss)	69,384	(1)	5,991	175	75,549
Other expense	163,641	4,103	11,766	8,000	187,510
Income (loss) before taxes	120,867	1,809	7,577	(9,837)	120,416
Income taxes (benefit)	37,960	634	2,652	(4,787)	36,459
<b>Net income (loss)</b>	<b>\$ 82,907</b>	<b>\$ 1,175</b>	<b>\$ 4,925</b>	<b>\$ (5,050)</b>	<b>\$ 83,957</b>
Balances at December 31, 2014:					
Assets	\$6,910,386	\$ 40,308	\$ 43,762	\$ 6,743	\$7,001,199
Loans	4,781,761	40,645	23,956	(16,680)	4,829,682
Deposits	5,222,766	5,883	—	(100,649)	5,128,000
Operating results for the year ended December 31, 2013 (In thousands)					
	PNB	GFSC	SEPH	All Other	Total
Net interest income (loss)	\$ 210,781	\$ 8,741	\$ (1,325)	\$ 2,828	\$ 221,025
Provision for (recovery of) loan losses	14,039	1,175	(11,799)	—	3,415
Other income	70,841	11	1,956	469	73,277
Other expense	158,651	3,133	12,211	7,520	181,515
Income (loss) before taxes	108,932	4,444	219	(4,223)	109,372
Income taxes (benefit)	33,696	1,556	77	(2,826)	32,503
<b>Net income (loss)</b>	<b>\$ 75,236</b>	<b>\$ 2,888</b>	<b>\$ 142</b>	<b>\$ (1,397)</b>	<b>\$ 76,869</b>
Balances at December 31, 2013:					
Assets	\$6,522,174	\$ 47,115	\$ 72,781	\$ (5,647)	\$6,636,423
Loans	4,559,406	47,228	38,014	(24,143)	4,620,505
Deposits	4,896,405	7,159	—	(113,570)	4,789,994

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The following is a reconciliation of financial information for the reportable segments to the Corporation's consolidated totals:

(In thousands)	Net Interest Income	Depreciation Expense	Other Expense	Income Taxes	Assets	Deposits
<b>2015:</b>						
Totals for reportable segments	\$227,393	\$7,347	\$169,295	\$37,238	\$7,299,098	\$5,451,920
Elimination of intersegment items	2,561	—	—	—	(13,557)	(104,278)
Parent Co. totals – not eliminated	(2,322)	—	9,972	(4,671)	25,813	—
<b>Totals</b>	<b>\$227,632</b>	<b>\$7,347</b>	<b>\$179,267</b>	<b>\$32,567</b>	<b>\$7,311,354</b>	<b>\$5,347,642</b>
<b>2014:</b>						
Totals for reportable segments	\$227,056	\$7,243	\$172,267	\$41,246	\$6,994,456	\$5,228,649
Elimination of intersegment items	3,708	—	—	—	(18,556)	(100,649)
Parent Co. totals – not eliminated	(5,720)	—	8,000	(4,787)	25,299	—
<b>Totals</b>	<b>\$225,044</b>	<b>\$7,243</b>	<b>\$180,267</b>	<b>\$36,459</b>	<b>\$7,001,199</b>	<b>\$5,128,000</b>
<b>2013:</b>						
Totals for reportable segments	\$218,197	\$7,315	\$166,680	\$35,329	\$6,642,070	\$4,903,564
Elimination of intersegment items	8,659	—	—	—	(30,369)	(113,570)
Parent Co. totals – not eliminated	(5,831)	—	7,520	(2,826)	24,722	—
<b>Totals</b>	<b>\$221,025</b>	<b>\$7,315</b>	<b>\$174,200</b>	<b>\$32,503</b>	<b>\$6,636,423</b>	<b>\$4,789,994</b>

## 28. PARENT COMPANY STATEMENTS

The Parent Company statements should be read in conjunction with the consolidated financial statements and the information set forth below. Investments in subsidiaries are accounted for using the equity method of accounting. The effective tax rate for the Parent Company is substantially less than the statutory rate due principally to tax-exempt dividends from subsidiaries.

Cash represents non-interest bearing deposits with PNB. Net cash provided by operating activities reflects cash payments (received from subsidiaries) for income taxes of \$4.13 million, \$5.81 million and \$2.54 million in 2015, 2014 and 2013, respectively.

At December 31, 2015 and 2014, shareholders' equity reflected in the Parent Company balance sheet includes \$199.4 million and \$196.5 million, respectively, of undistributed earnings of the Corporation's subsidiaries which are restricted from transfer as dividends to the Corporation.

### Balance Sheets

December 31, 2015 and 2014

(In thousands)	2015	2014
<b>Assets:</b>		
Cash	\$102,416	\$ 98,671
Investment in subsidiaries	613,383	599,855
Debentures receivable from PNB	25,000	25,000
Other investments	2,341	2,344
Other assets	23,443	23,260
<b>Total assets</b>	<b>\$766,583</b>	<b>\$749,130</b>
<b>Liabilities:</b>		
Subordinated notes	45,000	45,000
Other liabilities	8,228	7,589
<b>Total liabilities</b>	<b>53,228</b>	<b>52,589</b>
<b>Total shareholders' equity</b>	<b>713,355</b>	<b>696,541</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$766,583</b>	<b>\$749,130</b>

## Statements of Income

for the years ended December 31, 2015, 2014 and 2013

(In thousands)	2015	2014	2013
<b>Income:</b>			
Dividends from subsidiaries	\$60,000	\$60,000	\$ 15,000
Interest and dividends	2,561	3,708	8,659
Other	560	262	531
<b>Total income</b>	<b>63,121</b>	<b>63,970</b>	<b>24,190</b>
<b>Expense:</b>			
Other, net	12,341	13,807	13,413
<b>Total expense</b>	<b>12,341</b>	<b>13,807</b>	<b>13,413</b>
<b>Income before federal taxes and equity in undistributed income of subsidiaries</b>	<b>50,780</b>	<b>50,163</b>	<b>10,777</b>
Federal income tax benefit	4,671	4,787	2,826
<b>Income before equity in undistributed income of subsidiaries</b>	<b>55,451</b>	<b>54,950</b>	<b>13,603</b>
Equity in undistributed income of subsidiaries	25,561	29,007	63,266
<b>Net income</b>	<b>\$81,012</b>	<b>\$83,957</b>	<b>\$ 76,869</b>
Other comprehensive (loss) income <sup>(1)</sup>	(2,035)	21,811	(17,901)
<b>Comprehensive income</b>	<b>78,977</b>	<b>105,768</b>	<b>58,968</b>

(1) See Consolidated Statements of Comprehensive Income for other comprehensive income (loss) detail.

## Statements of Cash Flows

for the years ended December 31, 2015, 2014 and 2013

(In thousands)	2015	2014	2013
<b>Operating activities:</b>			
Net income	\$ 81,012	\$ 83,957	\$ 76,869
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed income of subsidiaries	(25,561)	(29,007)	(63,266)
Compensation expense for issuance of treasury stock to directors	963	801	850
Share-based compensation expense	865	458	—
Decrease in other assets	(182)	(1,292)	(2,215)
Increase (decrease) in other liabilities	485	298	(2,187)
<b>Net cash provided by operating activities</b>	<b>57,582</b>	<b>55,215</b>	<b>10,051</b>
<b>Investing activities:</b>			
Capital contribution in subsidiary	—	—	(45,000)
Repayment of investments in and advances to subsidiaries	10,000	32,000	101,960
<b>Net cash provided by investing activities</b>	<b>10,000</b>	<b>32,000</b>	<b>56,960</b>
<b>Financing activities:</b>			
Cash dividends paid	(57,776)	(57,876)	(57,949)
Repayment of subordinated notes	—	(35,250)	—
Repurchase of treasury shares	(6,058)	(2,355)	(843)
Cash payment for fractional shares	(3)	(5)	(3)
<b>Net cash used in financing activities</b>	<b>(63,837)</b>	<b>(95,486)</b>	<b>(58,795)</b>
Increase (decrease) in cash	3,745	(8,271)	8,216
Cash at beginning of year	98,671	106,942	98,726
<b>Cash at end of year</b>	<b>\$102,416</b>	<b>\$ 98,671</b>	<b>\$106,942</b>



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# **PARK NATIONAL CORPORATION**

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