PARK NATIONAL CORP /OH/
Form 10-Q
November 09, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-13006

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

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

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

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

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

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

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

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

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

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

Yes ¨ No x

15,405,921 Common shares, no par value per share, outstanding at November 4, 2011.

PARK NATIONAL CORPORATION

CONTENTS

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

	September 30, 2011	December 31, 2010
Assets:		
Cash and due from banks	$ 132,988	$ 109,058
Money market instruments	139,109	24,722
Cash and cash equivalents	272,097	133,780
Investment securities		
Securities available-for-sale, at fair value (amortized cost of $772,910 and $1,274,258 at September 30, 2011 and December 31, 2010)	797,163	1,297,522
Securities held-to-maturity, at amortized cost (fair value of $861,369 and $686,114 at September 30, 2011 and December 31, 2010)	843,576	673,570
Other investment securities	67,892	68,699
Total investment securities	1,708,631	2,039,791
Loans	4,680,575	4,732,685
Allowance for loan losses	(100,248)	(121,397)
Net loans	4,580,327	4,611,288
Bank owned life insurance	153,159	146,450
Goodwill and other intangible assets	76,370	78,377
Bank premises and equipment, net	68,633	69,567
Other real estate owned	46,911	44,325
Accrued interest receivable	21,990	24,137
Mortgage loan servicing rights	10,069	10,488
Other	161,501	140,174
Total assets	$ 7,099,688	$ 7,298,377
Liabilities and Stockholders' Equity:		
Deposits:		
Noninterest bearing	$ 1,000,969	$ 937,719
Interest bearing	4,088,218	4,157,701
Total deposits	5,089,187	5,095,420
Short-term borrowings	243,071	663,669
Long-term debt	823,722	636,733
Subordinated debentures and notes	75,250	75,250
Accrued interest payable	5,416	6,123
Other	103,399	75,358
Total liabilities	6,340,045	6,552,553
COMMITMENTS AND CONTINGENCIES		

Stockholders' equity:		
Preferred stock (200,000 shares authorized; 100,000 shares issued with $1,000 per share liquidation preference)	97,932	97,290
Common stock (No par value; 20,000,000 shares authorized; 16,151,033 shares issued at September 30, 2011 and 16,151,062 shares issued at December 31, 2010)	301,203	301,204
Common stock warrants	4,406	4,473
Retained earnings	434,711	422,458
Treasury stock (752,129 shares at September 30, 2011 and 752,128 shares at December 31, 2010)	(77,733)	(77,733)
Accumulated other comprehensive (loss), net of taxes	(876)	(1,868)
Total stockholders' equity	759,643	745,824
Total liabilities and stockholders' equity	$ 7,099,688	$ 7,298,377

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest and dividend income:				
Interest and fees on loans	$65,645	$67,123	$196,961	$200,287
Interest and dividends on:				
Obligations of U.S. Government, its agencies and other securities	16,289	19,333	54,302	60,071
Obligations of states and political subdivisions	69	192	310	613
Other interest income	62	34	76	155
Total interest and dividend income	82,065	86,682	251,649	261,126
Interest expense:				
Interest on deposits:				
Demand and savings deposits	976	1,263	2,918	4,620
Time deposits	5,661	8,532	18,595	28,700
Interest on borrowings:				
Short-term borrowings	182	269	642	915
Long-term debt	7,626	7,173	22,539	21,345
Total interest expense	14,445	17,237	44,694	55,580
Net interest income	67,620	69,445	206,955	205,546
Provision for loan losses	18,525	14,654	55,925	44,454
Net interest income after provision for loan losses	49,095	54,791	151,030	161,092
Other income:				
Income from fiduciary activities	3,615	3,314	11,266	10,264
Service charges on deposit accounts	4,894	5,026	13,664	14,864
Other service income	3,087	3,909	8,122	10,367
Checkcard fee income	3,154	2,900	9,381	8,109
Bank owned life insurance income	1,229	1,313	3,686	3,783
ATM fees	726	699	2,062	2,296
OREO devaluations	(1,688)	(1,555)	(11,339)	(4,619)
Other	1,910	1,924	6,492	5,823
Total other income	16,927	17,530	43,334	50,887

Gain on sale of securities	3,465	-	25,462	11,819

Continued

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Other expense:				
Salaries and employee benefits	$25,799	$24,500	$76,116	$73,684
Occupancy expense	2,665	2,840	8,429	8,750
Furniture and equipment expense	2,688	2,624	8,130	7,820
Data processing fees	1,184	1,403	3,572	4,390
Professional fees and services	5,005	4,477	15,199	14,632
Amortization of intangibles	669	822	2,007	2,600
Marketing	764	840	2,115	2,688
Insurance	681	2,316	5,295	6,847
Communication	1,475	1,696	4,516	5,112
State taxes	469	865	1,414	2,548
Other expense	4,200	3,313	12,159	11,516
Total other expense	45,599	45,696	138,952	140,587
Income before income taxes	23,888	26,625	80,874	83,211
Income taxes	5,579	7,048	20,870	21,689
Net income	$18,309	$19,577	$60,004	$61,522
Preferred stock dividends and accretion	1,464	1,452	4,392	4,355
Net income available to common shareholders	$16,845	$18,125	$55,612	$57,167
Per Common Share:				
Net income available to common shareholders				
Basic	$1.09	$1.19	$3.61	$3.79
Diluted	$1.09	$1.19	$3.61	$3.79
Weighted average common shares outstanding				
Basic	15,398,909	15,272,720	15,398,919	15,090,113
Diluted	15,398,909	15,272,720	15,400,641	15,090,113
Cash dividends declared	$0.94	$0.94	$2.82	$2.82

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

- 5 -

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

Nine Months ended September 30, 2011 and 2010	Preferred Stock	Common Stock	Retained Earnings	Treasury Stock at Cost	Accumulated Other Comprehensive Income (loss)	Comprehensive Income (loss)
Balance at December 31, 2009	$96,483	$306,569	$423,872	$(125,321)	$15,661	
Net Income			61,522			$61,522
Other comprehensive income (loss), net of tax:						
Unrealized net holding (loss) on cash flow hedge, net of income taxes of $(149)					(277)	(277)
Unrealized net holding (loss) on securities available-for-sale, net of income taxes of $(1,631)					(3,030)	(3,030)
Total comprehensive income						$58,215
Cash dividends on common stock at $2.82 per share			(42,668)			
Cash payment for fractional shares in dividend reinvestment plan		(2)				
Reissuance of common stock from treasury shares held for warrants issued		(852)	(9,495)	37,915		
Accretion of discount on preferred stock	605		(605)			
Preferred stock dividends			(3,750)			
Balance at September 30, 2010	$97,088	$305,715	$428,876	$(87,406)	$12,354	
Balance at December 31, 2010	$97,290	$305,677	$422,458	$(77,733)	$(1,868)	
Net Income			60,004			$60,004
Other comprehensive income (loss), net of tax:						
Unrealized net holding gain on cash flow hedge, net of income taxes of $187					348	348
Unrealized net holding gain on securities available-for-sale, net of income taxes of $345					644	644
Total comprehensive income						$60,996
Cash dividends on common stock at $2.82 per share			(43,425)			
Cash payment for fractional shares in dividend reinvestment plan		(2)				
Common stock warrants cancelled		(66)	66			
Accretion of discount on preferred stock	642		(642)			
Preferred stock dividends			(3,750)			
Balance at September 30, 2011	$97,932	$305,609	$434,711	$(77,733)	$(876)	

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	Nine Months Ended September 30, 2011	2010
Operating activities:		
Net income	$60,004	$61,522
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, accretion and amortization	8,457	9,511
Provision for loan losses	55,925	44,454
Other-than-temporary impairment on investment securities	-	23
Amortization of core deposit intangibles	2,007	2,600
Realized net investment security gains	(25,462)	(11,819)
OREO devaluations	11,339	4,619
Changes in assets and liabilities:		
(Increase) in other assets	(41,662)	(30,621)
Increase in other liabilities	6,510	712
Net cash provided by operating activities	$77,118	$81,001
Investing activities:		
Proceeds from sales of available-for-sale securities	$535,768	$344,325
Proceeds from sales of Federal Home Loan Bank stock	807	111
Proceeds from maturity of:		
Available-for-sale securities	351,226	1,354,317
Held-to-maturity securities	281,159	166,321
Purchases of:		
Available-for-sale securities	(360,835)	(1,665,825)
Held-to-maturity securities	(429,993)	(77,478)
Net (increase) in loans	(22,149)	(60,036)
Purchases of bank owned life insurance, net	(3,000)	(4,562)
Purchases of premises and equipment, net	(4,765)	(6,579)
Net cash provided by investing activities	$348,218	$50,594

Continued

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

	Nine Months Ended September 30, 2011	2010
Financing activities:		
Net (decrease) in deposits	$(6,233)	$(88,022)
Net (decrease) in short-term borrowings	(420,598)	(38,562)
Proceeds from issuance of long-term debt	203,000	-
Repayment of long-term debt	(16,011)	(11,664)
Cash payment for fractional shares in dividend reinvestment plan	(2)	(2)
Proceeds from reissuance of common stock from treasury shares held	-	27,568
Cash dividends paid on common and preferred stock	(47,175)	(46,418)
Net cash (used in) financing activities	$(287,019)	$(157,100)
Increase (decrease) in cash and cash equivalents	138,317	(25,505)
Cash and cash equivalents at beginning of year	133,780	159,091
Cash and cash equivalents at end of period	$272,097	$133,586
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$45,401	$58,068
Income taxes	$16,700	$19,200
Non cash activities:		
Securities purchased, not yet settled	$21,172	$148,023

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

PARK NATIONAL CORPORATION
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

The accompanying unaudited consolidated condensed financial statements included in this report have been prepared for Park National Corporation (the “Registrant”, “Corporation”, “Company”, or “Park”) and its subsidiaries. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations for the interim periods included herein have been made. The results of operations for the three and nine month periods ended September 30, 2011 are not necessarily indicative of the operating results to be anticipated for the fiscal year ending December 31, 2011.

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and footnotes necessary for a fair presentation of the condensed balance sheets, condensed statements of income, condensed statements of changes in stockholders’ equity and condensed statements of cash flows in conformity with U.S. generally accepted accounting principles (“GAAP”). These financial statements should be read in conjunction with the consolidated financial statements incorporated by reference in the Annual Report on Form 10-K of Park for the fiscal year ended December 31, 2010 from Park’s 2010 Annual Report to Shareholders (“2010 Annual Report”).

Park’s significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in Park’s 2010 Annual Report. For interim reporting purposes, Park follows the same basic accounting policies, as updated by the information contained in this report, and considers each interim period an integral part of an annual period. Management has evaluated events occurring subsequent to the balance sheet date, determining no events require additional disclosure in these consolidated condensed financial statements.

Note 2 – Recent Accounting Pronouncements

Adoption of New Accounting Pronouncements:

Improving Disclosures About Fair Value Measurements: In January 2010, the FASB issued an amendment to Fair Value Measurements and Disclosures, Topic 820, Improving Disclosures About Fair Value Measurements. This amendment requires new disclosures regarding significant transfers in and out of Level 1 and 2 fair value measurements and the reasons for the transfers. This amendment also requires that a reporting entity present separately information about purchases, sales, issuances and settlements, on a gross basis rather than a net basis for activity in Level 3 fair value measurements using significant unobservable inputs. This amendment also clarifies existing disclosures on the level of disaggregation, in that the reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities, and that a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for Level 2 and 3. The new disclosures and clarifications of existing disclosures for ASC 820 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of Accounting Standard Codification (ASC) 820 on January 1, 2011 did not have a material effect on the Company’s consolidated financial statements.

Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses: In July 2010, FASB issued Accounting Standards Update 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20), to address concerns about the sufficiency, transparency, and robustness of credit risk disclosures for finance receivables and the related allowance for credit losses. This ASU requires new and enhanced disclosures at disaggregated levels, specifically defined as “portfolio segments” and “classes”. Among other things, the expanded disclosures include roll-forward schedules of the allowance for credit losses and information regarding the credit quality of receivables as of the end of a reporting period. New and enhanced disclosures are required for interim and annual periods ending after December 15, 2010, although the disclosures of reporting period activity are required for interim and annual periods beginning after December 15, 2010. The adoption of the new guidance on January 1, 2011 impacted interim and annual disclosures included in the Company’s consolidated financial statements.

No. 2011-01 - Receivables (Topic 310) Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20: In January 2011, FASB issued Accounting Standards Update 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 (ASU 2011-01). ASU 2011-01 was issued as a result of concerns raised from stakeholders that the introduction of new disclosure requirements (paragraphs 310-10-50-31 through 50-34 of the FASB Accounting Standards Codification) about troubled debt restructurings in one reporting period followed by a change in what constitutes a troubled debt restructuring shortly thereafter would be burdensome for preparers and may not provide financial statement users with useful information.

No. 2011-02 – Receivables (Topic 310) A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring: In April 2011, FASB issued Accounting Standards Update 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring (ASU 2011-02). The ASU provides additional guidance to creditors for evaluating whether a modification or restructuring of a receivable is a troubled debt restructuring ("TDR"). The new guidance requires creditors to evaluate modifications and restructurings of receivables using a more principles-based approach, which may result in more modifications and restructurings being considered TDRs. Additionally, creditors will be required to provide additional disclosures about their TDR activities in accordance with the requirements of ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which was deferred by ASU 2011-01 Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 (ASU 2011-01). The new guidance will be effective for the first interim or annual period beginning on or after June 15, 2011, with retrospective application required to the beginning of the annual period of adoption. Disclosure requirements will be effective for the first interim and annual period beginning on or after June 15, 2011. The adoption of the new guidance effective July 1, 2011 resulted in an increase in the number of modifications and restructuring deemed to be TDRs and impacted interim disclosures included in the Company's consolidated financial statements.

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

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

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

Note 3 – Goodwill and Intangible Assets

The following table shows the activity in goodwill and core deposit intangibles for the first nine months of 2011.

(in thousands)	Goodwill	Core Deposit Intangibles	Total
December 31, 2010	$ 72,334	$ 6,043	$ 78,377
Amortization	-	2,007	2,007
September 30, 2011	$ 72,334	$ 4,036	$ 76,370

The core deposit intangibles are being amortized to expense principally on the straight-line method, over periods ranging from six to ten years. Management expects that the core deposit intangibles amortization expense will be $669,000 for the fourth quarter of 2011.

Core deposit intangibles amortization expense is projected to be as follows for the remainder of 2011 and for each of the following years:

(in thousands)	Annual Amortization
Remainder of 2011	$ 669
2012	2,677
2013	690
Total	$ 4,036

Note 4 – Loans

The composition of the loan portfolio, by class of loan, as of September 30, 2011 and December 31, 2010 was as follows:

	September 30, 2011			December 31, 2010		
(In thousands)	Loan balance	Accrued interest receivable	Recorded investment	Loan balance	Accrued interest receivable	Recorded investment
Commercial, financial and agricultural *	$ 756,888	$ 2,992	$ 759,880	$ 737,902	$ 2,886	$ 740,788
Commercial real estate *	1,250,936	5,064	1,256,000	1,226,616	4,804	1,231,420
Construction real estate:						
Vision commercial land and development *	102,271	232	102,503	171,334	282	171,616
Remaining commercial	163,606	341	163,947	195,693	622	196,315
Mortgage	19,857	62	19,919	26,326	95	26,421
Installment	15,007	65	15,072	13,127	54	13,181
Residential real estate						
Commercial	456,670	1,276	457,946	464,903	1,403	466,306
Mortgage	968,330	1,355	969,685	906,648	2,789	909,437
HELOC	253,461	959	254,420	260,463	1,014	261,477
Installment	51,118	204	51,322	60,195	255	60,450
Consumer	640,267	2,679	642,946	666,871	3,245	670,116
Leases	2,164	40	2,204	2,607	56	2,663
Total loans	$ 4,680,575	$ 15,269	$ 4,695,844	$ 4,732,685	$ 17,505	$ 4,750,190

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

Credit Quality

The following tables present the recorded investment in nonaccrual, accruing restructured, and loans past due 90 days or more and still accruing by class of loans as of September 30, 2011 and December 31, 2010:

	September 30, 2011			
(In thousands)	Nonaccrual loans	Accruing restructured loans	Loans past due 90 days or more and accruing	Total nonperforming loans
Commercial, financial and agricultural	$ 21,844	$ 3,081	$ 22	$ 24,947
Commercial real estate	41,856	2,243	-	44,099
Construction real estate:				
Vision commercial land and development	42,353	1,249	-	43,602
Remaining commercial	29,386	4,575	-	33,961
Mortgage	66	-	-	66
Installment	107	-	-	107
Residential real estate:				
Commercial	47,422	-	-	47,422
Mortgage	25,976	4,393	1,237	31,606
HELOC	1,420	-	-	1,420
Installment	1,953	22	112	2,087
Consumer	1,983	-	851	2,834
Leases	-	-	-	-
Total loans	$ 214,366	$ 15,563	$ 2,222	$ 232,151

	December 31, 2010			
(In thousands)	Nonaccrual loans	Accruing restructured loans	Loans past due 90 days or more and accruing	Total nonperforming loans
Commercial, financial and agricultural	$ 19,276	$ -	$ -	$ 19,276
Commercial real estate	57,941	-	20	57,961
Construction real estate:				
Vision commercial land and development	87,424	-	-	87,424
Remaining commercial	27,080	-	-	27,080
Mortgage	354	-	-	354
Installment	417	-	13	430
Residential real estate:				
Commercial	60,227	-	-	60,227
Mortgage	32,479	-	2,175	34,654
HELOC	964	-	149	1,113
Installment	1,195	-	277	1,472
Consumer	1,911	-	1,059	2,970
Leases	-	-	-	-
Total loans	$ 289,268	$ -	$ 3,693	$ 292,961

The following table provides additional information regarding those nonaccrual and accruing restructured loans that are individually evaluated for impairment and those collectively evaluated for impairment as of September 30, 2011 and December 31, 2010.

	September 30, 2011			December 31, 2010		
(In thousands)	Nonaccrual and accruing restructured loans	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Nonaccrual and accruing restructured loans	Loans individually evaluated for impairment	Loans collectively evaluated for impairment
Commercial, financial and agricultural	$ 24,925	$ 24,925	$ -	$ 19,276	$ 19,205	$ 71
Commercial real estate	44,099	44,099	-	57,941	57,930	11
Construction real estate:						
Vision commercial land and development	43,602	42,036	1,566	87,424	86,491	933
Remaining commercial	33,961	33,961	-	27,080	27,080	-
Mortgage	66	-	66	354	-	354
Installment	107	-	107	417	-	417
Residential real estate:						
Commercial	47,422	47,422	-	60,227	60,227	-
Mortgage	30,369	-	30,369	32,479	-	32,479
HELOC	1,420	-	1,420	964	-	964
Installment	1,975	-	1,975	1,195	-	1,195
Consumer	1,983	21	1,962	1,911	-	1,911
Leases	-	-	-	-	-	-
Total loans	$ 229,929	$ 192,464	$ 37,465	$ 289,268	$ 250,933	$ 38,335

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

The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2011 and December 31, 2010.

	September 30, 2011			December 31, 2010		
(in thousands)	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated
With no related allowance recorded						
Commercial, financial and agricultural	$ 23,222	$ 15,496	$ -	$ 9,347	$ 8,891	$ -
Commercial real estate	39,400	31,680	-	24,052	19,697	-
Construction real estate:						
Vision commercial land and development	50,070	17,468	-	23,021	20,162	-
Remaining commercial	17,582	16,299	-	15,192	14,630	-
Residential real estate:						
Commercial	32,568	29,949	-	51,261	47,009	-
Consumer	-	-	-	-	-	-
With an allowance recorded						
Commercial, financial and agricultural	10,626	9,429	2,511	11,801	10,314	3,028
Commercial real estate	18,560	12,419	5,183	42,263	38,233	10,001
Construction real estate:						
Vision commercial land and development	43,575	24,568	12,135	92,122	66,329	23,585
Remaining commercial	30,813	17,662	8,765	20,676	12,450	2,802
Residential real estate:						
Commercial	21,847	17,473	4,681	14,799	13,218	4,043
Consumer	21	21	-	-	-	-
Total	$ 288,284	$ 192,464	$ 33,275	$ 304,534	$ 250,933	$ 43,459

Management’s general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral. At September 30, 2011 and December 31, 2010, there were $52.0 million and $12.5 million, respectively, of partial charge-offs on loans individually evaluated for impairment with no related allowance recorded and $43.9 million and $41.1 million, respectively, of partial charge-offs on loans individually evaluated for impairment that also had a specific reserve allocated.

The allowance for loan losses included specific reserves related to loans individually evaluated for impairment at September 30, 2011 and December 31, 2010, of $33.3 million and $43.5 million, respectively, related to loans with a recorded investment of $81.2 million and $140.5 million.

The following table presents the average recorded investment and interest income recognized on loans individually evaluated for impairment for the three and nine months ended September 30, 2011:

		Three months ended September 30, 2011		Nine months ended September 30, 2011	
(in thousands)	Recorded investment as of September 30, 2011	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial, financial and agricultural	$ 24,925	$ 24,049	$ 49	$ 21,361	$ 155
Commercial real estate	44,099	45,162	26	50,874	150
Construction real estate:					
Vision commercial land and development	42,036	43,555	-	67,135	-
Remaining commercial	33,961	34,027	116	29,573	330
Residential real estate:					
Commercial	47,422	48,064	-	54,454	153
Consumer	21	21	-	15	1
Total	$ 192,464	$ 194,878	$ 191	$ 223,412	$ 789

The following tables present the aging of the recorded investment in past due loans as of September 30, 2011 and December 31, 2010 by class of loans.

	September 30, 2011				
(In thousands)	Accruing loans past due 30-89 days	Past due nonaccrual loans and loans past due 90 days or more and accruing*	Total past due	Total current	Total recorded investment
Commercial, financial and agricultural	$ 2,211	$ 16,457	$ 18,668	$ 741,212	$ 759,880
Commercial real estate	9,543	23,119	32,662	1,223,338	1,256,000
Construction real estate:					
Vision commercial land and development	425	35,654	36,079	66,424	102,503
Remaining commercial	-	17,807	17,807	146,140	163,947
Mortgage	145	66	211	19,708	19,919
Installment	202	69	271	14,801	15,072
Residential real estate:					
Commercial	1,264	17,295	18,559	439,387	457,946
Mortgage	14,015	21,618	35,633	934,052	969,685
HELOC	539	673	1,212	253,208	254,420
Installment	1,428	499	1,927	49,395	51,322
Consumer	9,799	2,061	11,860	631,086	642,946
Leases	-	-	-	2,204	2,204
Total loans	$ 39,571	$ 135,318	$ 174,889	$ 4,520,955	$ 4,695,844

* Includes $2.2 million of loans past due 90 days or more and accruing.

	December 31, 2010				
(In thousands)	Accruing loans past due 30-89 days	Past due nonaccrual loans and loans past due 90 days or more and accruing*	Total past due	Total current	Total recorded investment
Commercial, financial and agricultural	$ 2,247	$ 15,622	$ 17,869	$ 722,919	$ 740,788
Commercial real estate	9,521	53,269	62,790	1,168,630	1,231,420
Construction real estate:					
Vision commercial land and development	2,406	65,130	67,536	104,080	171,616
Remaining commercial	141	19,687	19,828	176,487	196,315
Mortgage	479	148	627	25,794	26,421
Installment	235	399	634	12,547	13,181
Residential real estate:					
Commercial	3,281	26,845	30,126	436,180	466,306
Mortgage	17,460	24,422	41,882	867,555	909,437
HELOC	1,396	667	2,063	259,414	261,477
Installment	1,018	892	1,910	58,540	60,450
Consumer	11,204	2,465	13,669	656,447	670,116
Leases	5	-	5	2,658	2,663
Total loans	$ 49,393	$ 209,546	$ 258,939	$ 4,491,251	$ 4,750,190

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

Credit Quality Indicators

Management utilizes past due information as a credit quality indicator across the loan portfolio. The past due information is the primary credit quality indicator within the following classes of loans: (1) mortgage loans and installment loans in the construction real estate segment; (2) mortgage loans, HELOC and installment loans in the residential real estate segment; and (3) throughout the consumer loan segment. The primary credit indicator for commercial loans is based on an internal grading system that grades all commercial loans from 1 to 8. Credit grades are continuously monitored by the respective loan officer and adjustments are made when appropriate. A grade of 1 indicates little or no credit risk and a grade of 8 is considered a loss. Commercial loans with grades of 1 to 4.5 (pass-rated) are considered to be of acceptable credit risk. Commercial loans graded a 5 (special mention) are considered to be watch list credits and a higher loan loss reserve percentage is allocated to these loans. Loans classified as special mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loans or of the institution's credit position at some future date. Commercial loans graded 6 (substandard), also considered watch list credits, are considered to represent higher credit risk and, as a result, a higher loan loss reserve percentage is allocated to these loans. Loans classified as substandard loans are inadequately protected by the current net worth and paying capacity of the obligor and/or of the collateral pledged, if any. Loans so classified have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Commercial loans that are graded a 7 (doubtful) are shown as nonperforming and Park generally charges these loans down to their fair value by taking a partial charge-off or recording a specific reserve. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Any commercial loan graded an 8 (loss) is completely charged-off. The tables below present the recorded investment by loan grade at September 30, 2011 and December 31, 2010 for all commercial loans.

	September 30, 2011				
(in thousands)	5 Rated	6 Rated	Impaired	Pass Rated	Recorded Investment
Commercial, financial and agricultural	$ 36,037	$ 7,150	$ 24,925	$ 691,768	$ 759,880
Commercial real estate	51,417	21,222	44,099	1,139,262	1,256,000
Construction real estate:					
Vision commercial land and development	10,791	2,040	42,036	47,636	102,503
Remaining commercial	7,954	14,626	33,961	107,406	163,947
Residential real estate:					
Commercial	22,825	14,096	47,422	373,603	457,946
Leases	-	-	-	2,204	2,204
Total Commercial Loans	$ 129,024	$ 59,134	$ 192,443	$ 2,361,879	$ 2,742,480

	December 31, 2010				
(in thousands)	5 Rated	6 Rated	Impaired	Pass Rated	Recorded Investment
Commercial, financial and agricultural	$ 26,322	$ 11,447	$ 19,276	$ 683,743	$ 740,788
Commercial real estate	57,394	26,992	57,941	1,089,093	1,231,420
Construction real estate:					
Vision commercial land and development	10,220	7,941	87,424	66,031	171,616
Remaining commercial	14,021	39,062	27,080	116,152	196,315
Residential real estate:					
Commercial	29,206	18,117	60,227	358,756	466,306
Leases	-	-	-	2,663	2,663
Total Commercial Loans	$ 137,163	$ 103,559	$ 251,948	$ 2,316,438	$ 2,809,108

Troubled Debt Restructurings (TDRs)

Management classifies loans as TDRs when a borrower is experiencing financial difficulties and Park has granted a concession. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the company's internal underwriting policy. Management's policy is to modify loans by extending the term or by granting a temporary or permanent contractual interest rate below the market rate, not by forgiving debt. Certain loans which were modified during the period ending September 30, 2011 did not meet the definition of a TDR as the modification was a delay in a payment that was considered to be insignificant. Management considers a forbearance period of up to three months or a delay in payment of up to 30 days to be insignificant. TDRs may be classified as accruing if the borrower has been current for a period of at least six months with respect to loan payments and management expects that the borrower will be able to continue to make payments in accordance with the terms of the restructured note. Management reviews all accruing TDRs quarterly to ensure payments continue to be made in accordance with the modified terms.

At September 30, 2011 and December 31, 2010, there were $82.1 million and $80.7 million, respectively, of TDRs included in nonaccrual loan totals. As of September 30, 2011, there were $15.6 million of TDRs included in accruing loan totals. None of the TDRs as of December 31, 2010 were accruing. Prior to management's adoption of ASU 2011-02, Park classified all TDRs as nonaccrual loans. With the adoption of ASU 2011-02, management determined it was appropriate to return certain TDRs 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. At September 30, 2011 and December 31, 2010, $55.9 million and $50.3 million of the nonaccrual TDRs were current. Management will continue to review the renegotiated loans and may determine it appropriate to move certain of the loans back to accrual status in the future. At September 30, 2011 and December 31, 2010, Park had commitments to lend $1.2 million and $434,000, respectively, of additional funds to borrowers whose terms had been modified in a TDR.

The specific reserve related to TDRs at September 30, 2011 and December 30, 2010 was $12.2 million and $8.4 million respectively. Classifying these loans as TDRs generally resulted in a reduction of the allowance for loan losses as a result of performing an individual impairment analysis rather than apply a general reserve percentage.

The terms of certain other loans were modified during the period ending September 30, 2011 that did not meet the definition of a troubled debt restructuring. Modified substandard commercial loans which did not meet the definition of a TDR have a total recorded investment as of September 30, 2011 of $6.0 million. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or resulted in a delay in a payment that was considered to be insignificant. Modified consumer loans which did not meet the definition of a TDR have a total recorded investment as of September 30, 2011 of $11.7 million. Many of these loans were modified as a lower cost option than a full refinancing to borrowers who were not experiencing financial difficulties.

The following table details the number of contracts modified as TDRs during the 3 months and 9 months ended September 30, 2011 as well as the period end recorded investment of these contracts. The recorded investment pre and post modification is generally the same.

	3 months ended September 30, 2011		9 months ended September 30, 2011	
	Number of Contracts	Recorded Investment	Number of Contracts	Total recorded investment
(In thousands)				
Commercial, financial and agricultural	14	$1,977	32	$ 5,677
Commercial real estate	4	2,763	21	7,633
Construction real estate:				
Vision commercial land and development	2	504	8	3,342
Remaining commercial	3	2,192	16	14,795
Mortgage	-	-	1	66
Installment	-	-	-	-
Residential real estate:				
Commercial	3	239	10	3,493
Mortgage	7	1,550	27	4,137
HELOC	-	-	1	50
Installment	1	17	2	36
Consumer	-	-	-	-
Leases	-	-	-	-
Total loans	34	$9,242	118	$ 39,229

The following table presents the recorded investment in financing receivables which were modified as troubled debt restructurings within the previous 12 months and for which there was a payment default during the 3 month and 9 month periods ended September 30, 2011. For this table, a loan is considered to be in default when it becomes 30 days contractually past due under modified terms.

	3 months ended September 30, 2011		9 months ended September 30, 2011	
(In thousands)	Number of Contracts	Recorded Investment	Number of Contracts	Total recorded investment
Commercial, financial and agricultural	3	$ 506	7	$ 642
Commercial real estate	5	8,511	7	12,994
Construction real estate:				
Vision commercial land and development	2	1,962	3	1,979
Remaining commercial	1	5,000	1	5,000
Mortgage	1	66	1	66
Installment	-	-	-	-
Residential real estate:				
Commercial	1	607	5	20,061
Mortgage	4	736	8	1,695
HELOC	1	50	1	50
Installment	-	-	-	-
Total loans	18	$ 17,438	33	$ 42,487

Note 5 – Allowance for Loan Losses

The allowance for loan losses is that amount management believes is adequate to absorb probable incurred credit losses in the loan portfolio based on management's evaluation of various factors including overall growth in the loan portfolio, an analysis of individual loans, prior and current loss experience, and current economic conditions. A provision for loan losses is charged to operations based on management's periodic evaluation of these and other pertinent factors as discussed within Note 1 of Park's 2010 Annual Report.

The activity in the allowance for loan losses for the three and nine months ended September 30, 2011 and September 30, 2010 is summarized in the following table. As noted below, management included a reallocation of the beginning allowance for credit losses balance, which primarily impacted the commercial loan segments of the loan portfolio. At December 31, 2010, management's allowance calculation was performed in the aggregate for all commercial loans and then allocated across each segment of the commercial loan portfolio on a pro rata basis. During the first quarter of 2011, management determined that it would be more appropriate to perform the allowance calculation at the segment level and has provided an adjusted beginning balance for the allowance for credit losses in the nine months ended September 30, 2011 table below.

(In thousands)	Three months ended September 30, 2011 Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for credit losses:							
Beginning balance	$ 12,607	$ 22,470	$ 35,280	$ 32,105	$ 7,721	$ 4	$ 110,187
Charge-offs	4,361	6,505	12,587	5,886	1,682	-	31,021
Recoveries	154	845	621	341	595	1	2,557
Net Charge-offs	4,207	5,660	11,966	5,545	1,087	(1)	28,464
Provision	2,733	1,749	9,900	3,725	419	(1)	18,525
Ending balance	$ 11,133	$ 18,559	$ 33,214	$ 30,285	$ 7,053	$ 4	$ 100,248

(In thousands)	Nine months ended September 30, 2011 Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for credit losses:							
Beginning balance	$ 13,584	$ 28,515	$ 46,194	$ 25,845	$ 7,228	$ 31	$ 121,397
Reallocation of allowance	(1,888)	(6,604)	5,759	2,948	(189)	(26)	-
Adjusted beginning balance:	11,696	21,911	51,953	28,793	7,039	5	121,397
Charge-offs	10,125	14,855	39,686	13,162	5,597	-	83,425
Recoveries	1,050	1,669	834	1,232	1,562	4	6,351
Net Charge-offs	9,075	13,186	38,852	11,930	4,035	(4)	77,074
Provision	8,512	9,834	20,113	13,422	4,049	(5)	55,925
Ending balance	$ 11,133	$ 18,559	$ 33,214	$ 30,285	$ 7,053	$ 4	$ 100,248

The activity in the allowance for loan losses for the three and nine months ended September 30, 2010 is summarized as follows:

(In thousands)	Three months ended September 30, 2010	Nine months ended September 30, 2010
Allowance for credit losses:		
Beginning balance	$ 120,676	$ 116,717
Charge-offs	19,205	48,056
Recoveries	1,280	4,290
Net Charge-offs	17,925	43,766
Provision	14,654	44,454
Ending balance	$ 117,405	$ 117,405

The composition of the allowance for loan losses at September 30, 2011 and December 31, 2010 was as follows:

	September 30, 2011						
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	$ 2,511	$ 5,183	$ 20,900	$ 4,681	$ -	$ -	$ 33,275
Collectively evaluated for impairment	8,622	13,376	12,314	25,604	7,053	4	66,973
Total ending allowance balance	$ 11,133	$ 18,559	$ 33,214	$ 30,285	$ 7,053	$ 4	$ 100,248
Loan Balance:							
Loans individually evaluated for impairment	$ 24,899	$ 44,051	$ 75,970	$ 47,422	$ 21	$ -	$ 192,363
Loans collectively evaluated for impairment	731,989	1,206,885	224,771	1,682,157	640,246	2,164	4,488,212
Total ending loan balance	$ 756,888	$ 1,250,936	$ 300,741	$ 1,729,579	$ 640,267	$ 2,164	$ 4,680,575
Allowance for loan losses as a percentage of loan balance:							

Loans individually evaluated for impairment	10.08 %	11.77 %	27.51 %	9.87 %	-	-	17.30 %
Loans collectively evaluated for impairment	1.18 %	1.11 %	5.48 %	1.52 %	1.10 %	0.18 %	1.49 %
Total ending loan balance	1.47 %	1.48 %	11.04 %	1.75 %	1.10 %	0.18 %	2.14 %
Recorded Investment:							
Loans individually evaluated for impairment	$ 24,925	$ 44,099	$ 75,997	$ 47,422	$ 21	$ -	$ 192,464
Loans collectively evaluated for impairment	734,955	1,211,901	225,444	1,685,951	642,925	2,204	4,503,380
Total ending loan balance	$ 759,880	$ 1,256,000	$ 301,441	$ 1,733,373	$ 642,946	$ 2,204	$ 4,695,844

	December 31, 2010						
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	$ 3,028	$ 10,001	$ 26,387	$ 4,043	$ -	$ -	$ 43,459
Collectively evaluated for impairment	10,556	18,514	19,807	21,802	7,228	31	77,938
Total ending allowance balance	$ 13,584	$ 28,515	$ 46,194	$ 25,845	$ 7,228	$ 31	$ 121,397
Reallocated allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	$ 3,028	$ 10,001	$ 26,387	$ 4,043	$ -	$ -	$ 43,459
Collectively evaluated for impairment	8,668	11,910	25,566	24,750	7,039	5	77,938
Total ending allowance balance	$ 11,696	$ 21,911	$ 51,953	$ 28,793	$ 7,039	$ 5	$ 121,397
Loan Balance:							
Loans individually evaluated for impairment	$ 19,205	$ 57,930	$ 113,571	$ 60,227	$ -	$ -	$ 250,933
Loans collectively evaluated for impairment	718,697	1,168,686	292,909	1,631,982	666,871	2,607	4,481,752
Total ending loan balance	$ 737,902	$ 1,226,616	$ 406,480	$ 1,692,209	$ 666,871	$ 2,607	$ 4,732,685
Reallocated allowance for loan losses as a percentage of loan							

balance:														
Loans individually evaluated for impairment	15.77	%	17.26	%	23.23	%	6.71	%	-		-		17.32	%
Loans collectively evaluated for impairment	1.21	%	1.02	%	8.73	%	1.52	%	1.06	%	0.19	%	1.74	%
Total ending loan balance	1.59	%	1.79	%	12.78	%	1.70	%	1.06	%	0.19	%	2.57	%
Recorded Investment:														
Loans individually evaluated for impairment	$ 19,205		$ 57,930		$ 113,571		$ 60,227		$ -		$ -		$ 250,933	
Loans collectively evaluated for impairment	721,583		1,173,490		293,962		1,637,443		670,116		2,663		4,499,257	
Total ending loan balance	$ 740,788		$ 1,231,420		$ 407,533		$ 1,697,670		$ 670,116		$ 2,663		$ 4,750,190	

Loans collectively evaluated for impairment above include all performing loans at September 30, 2011 and December 31, 2010, 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. If these consumer loans become 180 days past due, they are charged off or charged down to the appraised value of the underlying collateral, less anticipated selling costs. Loans individually evaluated for impairment include all impaired loans internally classified as commercial loans at September 30, 2011 and December 31, 2010, which are evaluated for impairment in accordance with GAAP (see Note 1 of Park's 2010 Annual Report).

Note 6 – Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2011 and 2010.

(in thousands, except share and per share data)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Numerator:				
Income available to common shareholders	$16,845	$18,125	$55,612	$57,167
Denominator:				
Denominator for basic earnings per share (weighted average common shares outstanding)	15,398,909	15,272,720	15,398,919	15,090,113
Effect of dilutive options and warrants	-	-	1,722	-
Denominator for diluted earnings per share (weighted average common shares outstanding adjusted for the effect of dilutive options and warrants)	15,398,909	15,272,720	15,400,641	15,090,113
Earnings per common share:				
Basic earnings per common share	$1.09	$1.19	$3.61	$3.79
Diluted earnings per common share	$1.09	$1.19	$3.61	$3.79

As of September 30, 2011 and 2010, options to purchase 74,570 and 82,175 common shares, respectively, were outstanding under the Park National Corporation 2005 Incentive Stock Option Plan (the "2005 Plan"). A warrant to purchase 227,376 common shares was outstanding at both September 30, 2011 and 2010 as a result of Park's participation in the U.S. Treasury's Capital Purchase Program (the "CPP"). Additionally, warrants to purchase an aggregate of 35,992 common shares (the "December 2010 Warrants") were outstanding at September 30, 2011 as a result of the issuance of common stock and warrants on December 10, 2010. Warrants to purchase an aggregate of 80,500 common shares (the "October 2009 Warrants") were outstanding at September 30, 2010 as a result of the issuance of common stock and warrants on October 30, 2009. All October 2009 Warrants were exercised or expired as of October 30, 2010 and thus had no impact on the three or nine month periods ended September 30, 2011.

The common shares represented by the options, the CPP Warrant (for the three month period only), and the December 2010 Warrants for the three and nine months ended September 30, 2011, totaling a weighted average of 338,743 and 133,343, respectively, and the common shares represented by the options, the CPP Warrant and the October 2009 Warrants for the three and nine months ended September 30, 2010, totaling a weighted average of 420,778 and 604,010, respectively, were not included in the computation of diluted earnings per common share because the respective exercise prices exceeded the market value of the underlying common shares such that their inclusion would have had an anti-dilutive effect. The warrant to purchase 227,376 common shares issued under the CPP was not included in the nine month weighted average of 133,343 at September 30, 2011, as the dilutive effect of this warrant was 1,722 shares of common stock for the nine month period ended September 30, 2011. The exercise price of the CPP warrant to purchase 227,376 common shares is $65.97.

Note 7 – Segment Information

The Corporation is a multi-bank holding company headquartered in Newark, Ohio. The operating segments for the Corporation are its two chartered bank subsidiaries, The Park National Bank (headquartered in Newark, Ohio) ("PNB") and Vision Bank (headquartered in Panama City, Florida) ("VB"). Management is required to disclose information about the different types of business activities in which a company engages and also information on the different economic environments in which a company operates, so that the users of the financial statements can better understand a company's performance, better understand the potential for future cash flows, and make more informed judgments about the company as a whole. Park has two operating segments, as: (i) there are two separate and distinct geographic markets in which Park operates, (ii) discrete financial information is available for each operating segment and (iii) the segments are aligned with internal reporting to Park's Chief Executive Officer, who is the chief operating decision maker.

Operating Results for the three months ended September 30, 2011

(in thousands)	PNB	VB	All Other	Total
Net interest income	$ 58,588	$ 6,493	$ 2,539	$ 67,620
Provision for loan losses	9,000	9,000	525	18,525
Other income (loss) and security gains	20,290	914	(812)	20,392
Other expense	35,936	7,267	2,396	45,599
Net income (loss)	24,518	(5,737)	(472)	18,309
Balance at September 30, 2011				
Assets	$ 6,346,125	$ 719,264	$ 34,299	$ 7,099,688

Operating Results for the three months ended September 30, 2010

(in thousands)	PNB	VB	All Other	Total
Net interest income	$ 59,986	$ 7,174	$ 2,285	$ 69,445
Provision for loan losses	6,576	7,529	549	14,654
Other income (loss) and security gains	17,588	(139)	81	17,530
Other expense	35,406	7,726	2,564	45,696
Net income (loss)	24,425	(5,316)	468	19,577
Balance at September 30, 2010				
Assets	$ 6,269,783	$ 838,090	$ (17,417)	$ 7,090,456

Operating Results for the nine months ended September 30, 2011

(in thousands)	PNB	VB	All Other	Total
Net interest income	$ 179,366	$ 20,248	$ 7,341	$ 206,955
Provision for loan losses	18,950	35,400	1,575	55,925
Other income (loss) and security gains	73,590	(2,509)	(2,285)	68,796
Other expense	108,572	22,866	7,514	138,952
Net income (loss)	87,798	(26,256)	(1,538)	60,004

Operating Results for the nine months ended September 30, 2010

(in thousands)	PNB	VB	All Other	Total
Net interest income	$ 177,997	$ 20,979	$ 6,570	$ 205,546
Provision for loan losses	15,126	27,729	1,599	44,454
Other income (loss) and security gains	63,206	(744)	244	62,706
Other expense	107,960	23,817	8,810	140,587
Net income (loss)	80,610	(19,528)	440	61,522

The operating results of the Parent Company and Guardian Financial Services Company (GFC) in the “All Other” column are used to reconcile the segment totals to the consolidated condensed statements of income for the three and nine month periods ended September 30, 2011 and 2010. The reconciling amounts for consolidated total assets for the periods ended September 30, 2011 and 2010 consist of the elimination of intersegment borrowings and the assets of the Parent Company and GFC which are not eliminated.

Note 8 – Stock Option Plan

Park did not grant any stock options during the nine month periods ended September 30, 2011 and 2010. Additionally, no stock options vested during the first nine months of 2011 or 2010.

The following table summarizes stock option activity during the first nine months of 2011.

	Stock Options	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2010	78,075	$ 74.96
Granted	-	-
Exercised	-	-
Forfeited/Expired	3,505	74.96
Outstanding at September 30, 2011	74,570	$ 74.96

All of the stock options outstanding at September 30, 2011 were exercisable. The aggregate intrinsic value of the outstanding stock options at September 30, 2011 was $0. In addition, no stock options were exercised during the first nine months of 2011 or 2010. The weighted average contractual remaining term was 1.19 years for the stock options outstanding at September 30, 2011.

All of the common shares delivered upon exercise of incentive stock options granted under the Park National Corporation 2005 Incentive Stock Option Plan (the “2005 Plan”) are to be treasury shares. At September 30, 2011, incentive stock options granted under the 2005 Plan covering 74,570 common shares were outstanding. At September 30, 2011, Park held 488,761 treasury shares that are available for the 2005 Plan.

Note 9 – Mortgage Loans Held For Sale

Mortgage loans held for sale are carried at their fair value. At September 30, 2011 and December 31, 2010, respectively, Park had approximately $10.8 million and $8.3 million in mortgage loans held for sale. These amounts are included in loans on the consolidated condensed balance sheets and in the residential real estate loan segments in Notes 4 and 5.

Note 10 – Investment Securities

The amortized cost and fair values of investment securities are shown in the following table. Management performs a quarterly evaluation of investment securities for any other-than-temporary impairment. For the three and nine months ended September 30, 2011 and September 30, 2010, there were no investment securities deemed to be other-than-temporarily impaired.

Investment securities at September 30, 2011, were as follows:

(in thousands)

Securities Available-for-Sale	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$223,459	$ 1,358	$ -	$ 224,817
Obligations of states and political subdivisions	3,615	109	-	3,724
U.S. Government sponsored entities asset-backed securities	544,648	22,100	-	566,748
Other equity securities	1,188	717	31	1,874
Total	$772,910	$ 24,284	$ 31	$ 797,163

Securities Held-to-Maturity	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Obligations of states and political subdivisions	$1,992	$ 7	$ -	$1,999
U.S. Government sponsored entities asset-backed securities	841,584	17,971	185	859,370
Total	$843,576	$ 17,978	$ 185	$861,369

Management does not believe any of the unrealized losses at September 30, 2011 or December 31, 2010, represents an other-than-temporary impairment. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized within net income in the period the other-than-temporary impairment is identified.

Securities with unrealized losses at September 30, 2011, were as follows:

(in thousands)	Less than 12 months		12 months or longer		Total	
Securities Available-for-Sale	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Other equity securities	$ -	$ -	$ 80	$ 31	$ 80	$ 31
Securities Held-to-Maturity						
U.S. Government sponsored entities asset-backed securities	$ 107,352	$ 185	$ -	$ -	$ 107,352	$ 185

Investment securities at December 31, 2010, were as follows:

(in thousands)

Securities Available-for-Sale	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$ 272,301	$ 2,968	$ 1,956	$273,313
Obligations of states and political subdivisions	10,815	281	52	11,044
U.S. Government sponsored entities asset-backed securities	990,204	30,633	9,425	1,011,412
Other equity securities	938	858	43	1,753
Total	$ 1,274,258	$ 34,740	$ 11,476	$1,297,522

Securities Held-to-Maturity	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
Obligations of states and political subdivisions	$ 3,167	$ 7	$ -	$3,174
U.S. Government sponsored entities asset-backed securities	670,403	17,157	4,620	682,940
Total	$ 673,570	$ 17,164	$ 4,620	$686,114

Securities with unrealized losses at December 31, 2010, were as follows:

(in thousands)	Less than 12 months		12 months or longer		Total	
Securities Available-for-Sale	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$ 74,379	$ 1,956	$ -	$ -	$ 74,379	$ 1,956
Obligations of states and political subdivisions	1,459	52			1,459	52
U.S. Government sponsored entities asset-backed securities	418,156	9,425	-	-	418,156	9,425
Other equity securities	74	29	221	14	295	43
Total	$ 494,068	$ 11,462	$ 221	$ 14	$ 494,289	$ 11,476
Securities Held-to-Maturity						
U.S. Government sponsored entities asset-backed securities	$ 297,584	$ 4,620	$ -	$ -	$ 297,584	$ 4,620

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

The amortized cost and estimated fair value of investments in debt securities at September 30, 2011, are shown in the following table by contractual maturity or the expected call date, except for asset-backed securities, which are shown as a single total, due to the unpredictability of the timing in principal repayments.

(in thousands)	Amortized cost	Fair value
Securities Available-for-Sale		
U.S. Treasury and sponsored entities notes:		
Due within one year	$ 223,459	$ 224,817
Total	$ 223,459	$ 224,817
Obligations of states and political subdivisions:		
Due within one year	$ 2,315	$ 2,327
Due one through five years	1,300	1,397
	$ 3,615	$ 3,724
U.S. Government sponsored entities asset-backed securities:		
Total	$ 544,648	$ 566,748

(in thousands)	Amortized cost	Fair value
Securities Held-to-Maturity		
Obligations of state and political subdivisions:		
Due within one year	$ 1,992	$ 1,999
Total	$ 1,992	$ 1,999
U.S. Government sponsored entities asset-backed securities:		
Total	$ 841,584	$ 859,370

Approximately $193 million of Park's securities shown in the above table as U.S. Treasury and sponsored entities notes are callable notes. These callable securities have a final maturity in 7 to 11 years, but are shown in the table at their expected call date. The remaining $30 million of securities in this category are U.S. Government sponsored entities discount notes that mature within 30 days.

Note 11 – Other Investment Securities

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

(in thousands)	September 30, 2011	December 31, 2010
Federal Home Loan Bank stock	$ 61,016	$ 61,823
Federal Reserve Bank stock	6,876	6,876
Total	$ 67,892	$ 68,699

Note 12 – Pension Plan

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

Park's funding policy is to contribute annually an amount that can be deducted for federal income tax purposes using a different actuarial cost method and different assumptions from those used for financial reporting purposes. Pension plan contributions were $14 million and $2 million for the nine month periods ended September 30, 2011 and 2010, respectively.

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

(in thousands)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Service cost	$ 1,139	$ 918	$ 3,417	$ 2,754
Interest cost	992	895	2,976	2,687
Expected return on plan assets	(1,885)	(1,476)	(5,657)	(4,390)
Amortization of prior service cost	5	6	15	16
Recognized net actuarial loss	352	269	1,057	809
Benefit expense	$ 603	$ 612	$ 1,808	$ 1,876

Note 13 – Derivative Instruments

FASB ASC 815, Derivatives and Hedging, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by GAAP, the Company records all derivatives on the consolidated condensed balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified into earnings when the hedged transaction affects earnings, with any ineffective portion of changes in the fair value of the derivative recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transaction.

During the first quarter of 2008, the Company executed an interest rate swap to hedge a $25 million floating-rate subordinated note that was entered into by Park during the fourth quarter of 2007. The Company's objective in using this derivative is to add stability to interest expense and to manage its exposure to interest rate risk. Our interest rate swap involves the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreement without exchange of the underlying principal amount, and has been designated as a cash flow hedge.

At September 30, 2011, the interest rate swap's fair value of $(1.1) million was included in other liabilities. No hedge ineffectiveness on the cash flow hedge was recognized during the quarter or nine months ended September 30, 2011. At September 30, 2011, the variable rate on the $25 million subordinated note was 2.37% (3-month LIBOR plus 200 basis points) and Park was paying 6.01% (4.01% fixed rate on the interest rate swap plus 200 basis points).

For the nine months ended September 30, 2011, the change in the fair value of the interest rate swap reported in other comprehensive income was a gain of $348,000 (net of taxes of $187,000). Amounts reported in accumulated other comprehensive income related to the interest rate swap will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt.

As of September 30, 2011, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Company does not use derivatives for trading or speculative purposes.

As of September 30, 2011, Park had mortgage loan interest rate lock commitments outstanding of approximately $29.3 million. Park has specific forward contracts to sell each of these loans to a third party investor. These loan commitments represent derivative instruments, which are required to be carried at fair value. The derivative instruments used are not designated as hedges under GAAP. At September 30, 2011, the fair value of the derivative instruments was approximately $378,000. The fair value of the derivative instruments is included within loans held for sale and the corresponding income is included within non-yield loan fee income. Gains and losses resulting from expected sales of mortgage loans are recognized when the respective loan contract is entered into between the borrower, Park, and the third party investor. The fair value of Park's mortgage interest rate lock commitments (IRLCs) is based on current secondary market pricing.

In connection with the sale of Park's Class B Visa shares during the 2009 year, Park entered into a swap agreement with the purchaser of the shares. The swap agreement adjusts for dilution in the conversion ratio of Class B Visa shares resulting from certain Visa litigation. At September 30, 2011, the fair value of the swap liability of $200,000 is an estimate of the exposure based upon probability-weighted potential Visa litigation losses.

Note 14 – Loan Servicing

Park serviced sold mortgage loans of $1.41 billion at September 30, 2011, compared to $1.51 billion at September 30, 2010. At September 30, 2011, $30.6 million of the sold mortgage loans were sold with recourse compared to $42.0 million at September 30, 2010. Management closely monitors the delinquency rates on the mortgage loans sold with recourse. At September 30, 2011, management determined that no liability was deemed necessary for these loans.

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

Activity for MSRs and the related valuation allowance follows:

(in thousands)	Three months ended September 30, 2011	Nine months ended September 30, 2011
Mortgage servicing rights:		
Carrying amount, net, beginning of period	$ 10,259	$ 10,488
Additions	431	1,070
Amortization	(621)	(1,557)
Changes in valuation inputs & assumptions	-	68
Carrying amount, net, end of period	$ 10,069	$ 10,069
Valuation allowance:		
Beginning of period	$ 680	$ 748
Changes due to fair value adjustments	-	(68)
End of period	$ 680	$ 680

Servicing fees included in other service income were $1.5 million and $4.3 million for the three and nine months ended September 30, 2011, respectively. For the three and nine months ended September 30, 2010, servicing fees included in other service income were $1.7 million and $4.4 million, respectively.

Note 15 – Fair Value

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

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

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

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

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

Fair Value Measurements at September 30, 2011 using:

(in thousands)	Level 1	Level 2	Level 3	Balance at September 30, 2011
Assets				
Investment securities				
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$ -	$ 224,817	$ -	$ 224,817
Obligations of states and political subdivisions	-	3,724	-	3,724
U.S. Government sponsored entities' asset-backed securities	-	566,748	-	566,748
Equity securities	1,125	-	749	1,874
Mortgage loans held for sale	-	10,778	-	10,778
Mortgage IRLCs	-	378	-	378
Liabilities				
Interest rate swap	$ -	$ 1,099	$ -	$ 1,099
Fair value swap	-	-	200	200

Fair Value Measurements at December 31, 2010 using:

(in thousands)	Level 1	Level 2	Level 3	Balance at December 31, 2010
Assets				
Investment securities				
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$ -	$ 273,313	$ -	$ 273,313
Obligations of states and political subdivisions	-	8,446	2,598	11,044
U.S. Government sponsored entities' asset-backed	-	1,011,412	-	1,011,412

securities				
Equity securities	1,008	-	745	1,753
Mortgage loans held for sale	-	8,340	-	8,340
Mortgage IRLCs	-	166	-	166
Liabilities				
Interest rate swap	$ -	$ 1,634	$ -	$ 1,634
Fair value swap	-	-	60	60

The following methods and assumptions were used by the Corporation 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. The Fair Value Measurements tables exclude Park's Federal Home Loan Bank stock and Federal Reserve Bank stock. These assets are carried at their respective redemption values, as it is not practicable to calculate their fair values. For securities where quoted prices or market prices of similar securities are not available, which include municipal securities, fair values are calculated using discounted cash flows.

Interest rate swap: The fair value of the interest rate swap represents the estimated amount Park would pay or receive to terminate the agreement, considering current interest rates and the current creditworthiness of the counterparty.

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 three and nine month periods ended September 30, 2011 and 2010, for financial instruments measured on a recurring basis and classified as Level 3:

Level 3 Fair Value Measurements
Three months ended September 30, 2011 and 2010

(in thousands)	Obligations of states and political subdivisions	Equity Securities	Fair value swap
Balance, at June 30, 2011	$ -	$741	$(200)
Total gains/(losses)			
Included in earnings – realized	-	-	-
Included in earnings – unrealized	-	-	-
Included in other comprehensive income	-	8	-
Purchases, sales, issuances and settlements, other, net	-	-	-
Balance September 30, 2011	$ -	$749	$(200)
Balance, at June 30, 2010	$ 2,756	$-	$(340)
Total gains/(losses)			
Included in earnings – realized	-	-	-
Included in earnings – unrealized	-	-	-
Included in other comprehensive income	93	-	-
Purchases, sales, issuances and settlements, other, net	-	-	-
Balance September 30, 2010	$ 2,849	$-	$(340)

Level 3 Fair Value Measurements
Nine months ended September 30, 2011 and 2010

(in thousands)	Obligations of states and political subdivisions	Equity Securities	Fair value swap
Balance, at January 1, 2011	$ 2,598	$745	$(60)
Total gains/(losses)			
Included in earnings – realized	-	-	-
Included in earnings – unrealized	(128)	-	-
Included in other comprehensive income	-	4	-
Settlement	(2,470)	-	-
Re-evaluation of fair value swap	-	-	(140