PARK NATIONAL CORP /OH/
Form 10-K
February 26, 2019

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

FORM 10-K

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

For the fiscal year ended December 31, 2018

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, P.O. Box 3500, Newark, Ohio	43058-3500
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, without par value	NYSE AMERICAN

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
xYes ¨No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

¨Yes xNo

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.
xYes ¨No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files).
xYes ¨No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).
¨Yes xNo

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter: As of June 29, 2018, the aggregate market value of the Registrant's common shares (the only common equity of the Registrant) held by non-affiliates of the Registrant was $1,668,369,370 based on the closing sale price as reported on NYSE AMERICAN. For this purpose, executive officers and directors of the Registrant are considered affiliates.
Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 25, 2019
Common Shares, without par value	15,611,521 common shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Portions of the Registrant's 2018 Annual Report	Parts I and II
Portions of the Registrant's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 22, 2019	Part III

PART I

ITEM 1. BUSINESS.

General

Park National Corporation ("Park") is a financial holding company subject to regulation under the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"). Park was initially incorporated under Delaware law in 1986 and began operations as a bank holding company in 1987. In 1992, Park changed its state of incorporation to Ohio. Park's principal executive offices are located at 50 North Third Street, Newark, Ohio 43055, and its telephone number is (740) 349-8451. Park's common shares, each without par value (the "Common Shares"), are listed on NYSE AMERICAN, under the symbol "PRK."

Park maintains an internet site which can be accessed at http://www.parknationalcorp.com. Information contained in Park's internet site does not constitute part of, and is not incorporated into, this Annual Report on Form 10-K. Park makes available free of charge on or through its internet site Park's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as well as Park's definitive proxy statements filed pursuant to Section 14 of the Exchange Act, in each case as soon as reasonably practicable after Park electronically files such material with, or furnishes it to, the Securities and Exchange Commission (the "SEC").

Park's principal business consists of owning and supervising its subsidiaries. Although Park directs the overall policies of its subsidiaries, including lending policies and financial resources, most day-to-day affairs are managed by the respective officers of Park's subsidiaries.

Banking Operations

Throughout the fiscal year ended December 31, 2018 ("Fiscal 2018"), Park's banking operations were conducted through The Park National Bank ("Park National Bank").

Park National Bank is a national banking association with its main office in Newark, Ohio and financial service offices in Ashland, Athens, Butler, Champaign, Clark, Clermont, Coshocton, Crawford, Darke, Fairfield, Franklin, Greene, Guernsey, Hamilton, Hocking, Holmes, Knox, Licking, Madison, Marion, Mercer, Miami, Morrow, Muskingum, Perry, Richland, Tuscarawas, Warren and Wayne Counties in Ohio, Jefferson county in Kentucky and Iredell and Mecklenburg counties in North Carolina.

Park National Bank engages in the commercial banking and trust business, generally in small and medium population Ohio, Kentucky and North Carolina communities in addition to operations within the metropolitan areas of Columbus, Cincinnati and Charlotte. Park National Bank operates 113 financial service offices, including 109 branches, in Ohio, Kentucky and North Carolina through eleven banking divisions with: (i) the Park National Bank Division headquartered in Newark, Ohio; (ii) the Fairfield National Bank Division headquartered in Lancaster, Ohio; (iii) the Richland Bank Division headquartered in Mansfield, Ohio; (iv) the Century National Bank Division headquartered in Zanesville, Ohio; (v) the First-Knox National Bank Division headquartered in Mount Vernon, Ohio; (vi) the United Bank, N.A. Division headquartered in Bucyrus, Ohio; (vii) the Second National Bank Division headquartered in Greenville, Ohio; (viii) the Security National Bank Division headquartered in Springfield, Ohio; (ix) the Unity National Bank Division headquartered in Piqua, Ohio; (x) The Park National Bank of Southwest Ohio & Northern Kentucky Division headquartered in Cincinnati, Ohio; and (xi) the NewDominion Bank Division headquartered in Charlotte, North Carolina.

Park National Bank, and two additional operating segments, Guardian Financial Services Company ("Guardian Finance") and SE Property Holdings, LLC ("SEPH"), comprise Park's reportable operating segments. All other operating segments are combined and disclosed in the "All Other" category. Financial information about Park's reportable operating segments as of December 31, 2018 is included in Note 28 - Segment Information of the Notes to Consolidated Financial Statements in Park's 2018 Annual Report. That financial information is incorporated herein by reference.

As of the date of this Annual Report on Form 10-K, Park National Bank delivers financial products and services through its 113 financial service offices, a network of 135 automated teller machines, as well as telephone and internet-based banking through both personal computers and mobile devices. Financial information about Park National Bank is included in the "PNB” category for purposes of the reportable operating segment information included in Note 28 - Segment Information of the Notes to Consolidated Financial Statements in Park's 2018 Annual Report. That financial information is incorporated herein by reference.

Consumer Finance Subsidiary

Guardian Finance, an Ohio consumer finance company based in Hilliard, Ohio, operates as a separate subsidiary of Park. Guardian Finance provides consumer finance services in the central Ohio area. As of the date of this Annual Report on Form 10-K, Guardian Finance had five financial service offices spanning five counties in Ohio: Clark, Fairfield, Franklin, Licking and Warren. Financial information about Guardian Finance is included in the "GFSC" category for purposes of the reportable operating segment information included in Note 28 - Segment Information of the Notes to Consolidated Financial Statements in Park's 2018 Annual Report. That financial information is incorporated herein by reference.

SE Property Holdings, LLC

SEPH is a limited liability company, organized in 2011 under the laws of the State of Ohio, and a direct subsidiary of Park. The initial purpose of SEPH was to purchase other real estate owned ("OREO") from Vision Bank, a bank subsidiary of Park until February 16, 2012, and continue to market such properties for sale. By letter dated January 30, 2012, the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") authorized Park to engage in the business of extending credit through SEPH. As a result, SEPH is permitted to engage in lending activities and was able to succeed to the rights and obligations of Vision Bank in respect of the loans held by Vision Bank when Vision Bank merged into SEPH on February 16, 2012 (the "Vision Bank-SEPH merger"). SEPH has operations in Ohio, with the sole purpose of such operations being to sell OREO in an effective and efficient manner and work out or sell problem loan situations with the respective borrowers.

Financial information about SEPH is included in the "SEPH" category for purposes of the reportable operating segment information included in Note 28 - Segment Information of the Notes to Consolidated Financial Statements in Park's 2018 Annual Report. That financial information is incorporated herein by reference.

Scope Leasing, Inc.

Scope Leasing, Inc. (which does business as "Scope Aircraft Finance"), a subsidiary of Park National Bank, specializes in aircraft financing. The customers of Scope Aircraft Finance include small businesses and entrepreneurs intending to use the aircraft for business or pleasure. Scope Aircraft Finance serves customers throughout the United States of America (the "United States") and Canada.

Vision Bancshares Trust I

In connection with the merger of Vision Bancshares, Inc. ("Vision") into Park in March of 2007 (the "Vision Merger"), Park entered into a First Supplemental Indenture, dated as of the effective time of the Vision Merger (the "First Supplemental Indenture"), with Vision and Wilmington Trust Company, a Delaware banking corporation, as Trustee. Under the terms of the First Supplemental Indenture, Park assumed all of the payment and performance obligations of Vision under the Junior Subordinated Indenture, dated as of December 5, 2005 (the "Indenture"), pursuant to which Vision issued $15.5 million of junior subordinated notes to Vision Bancshares Trust I, a Delaware statutory trust (the "Vision Trust"). The junior subordinated notes were issued by Vision in connection with the sale by the Vision Trust of $15.0 million of floating rate preferred securities to institutional investors on December 5, 2005.

Under the terms of the First Supplemental Indenture, Park also succeeded to and was substituted for Vision with the same effect as if Park had originally been named (i) as "Depositor" in the Amended and Restated Trust Agreement of the Vision Trust, dated as of December 5, 2005 (the "Trust Agreement"), among Vision, Wilmington Trust Company, as Property Trustee and as Delaware Trustee, and the Administrative Trustees named therein and (ii) as "Guarantor" in the Guarantee Agreement, dated as of December 5, 2005 (the "Guarantee Agreement"), between Vision and Wilmington Trust Company, as Guarantee Trustee. Through these contractual obligations, Park has fully and unconditionally guaranteed all of the Vision Trust's obligations with respect to the floating rate preferred securities.

Both the junior subordinated notes and the floating rate preferred securities mature on December 30, 2035 (which maturity may be shortened), and carry a floating interest rate per annum, reset quarterly, equal to the sum of three-month LIBOR plus 148 basis points. Payment of interest on the junior subordinated notes, and payment of cash distributions on the floating rate preferred securities, may be deferred at any time or from time to time for a period not to exceed twenty consecutive quarters, subject to specified conditions.

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Under the terms of the Indenture and the related Guarantee Agreement, Park, as successor to Vision in accordance with the First Supplemental Indenture, is prohibited, subject to limited exceptions, from declaring or paying dividends or distributions on, or redeeming, repurchasing, acquiring or making any liquidation payments with respect to, any shares of Park's capital stock (i) if an event of default under the Indenture has occurred and continues; (ii) if Park is in default with respect to the payment of any obligations under the Guarantee Agreement; or (iii) during any period in which the payment of interest on the junior subordinated notes by Park (and the payment of cash distributions on the floating rate preferred securities by the Vision Trust) is being deferred. The floating rate preferred securities are considered Tier 1 Capital under regulatory capital standards.

Other Subsidiaries

Park Investments, Inc. ("PII"), which is a subsidiary of Park National Bank, operates as an asset management company. Commencing in 2015, Park began purchasing and holding municipal bonds within PII. As of December 31, 2018, PII held municipal securities with an amortized cost of $305.3 million.

River Park Properties, LLC, Park ABQ, LLC and X Holdings, LLC are subsidiaries of Park National Bank that hold certain OREO properties or other nonperforming assets. The operations of these subsidiaries are not significant to the consolidated Park entity.

87A Orange Beach, LLC, Morningside Holding, LLC, Swindall Holdings, LLC, Swindall Partnership Holdings, LLC, Marina Holdings Z, LLC, Marina Holding WE, LLC, and Vision-Park Properties, L.L.C. are subsidiaries of SEPH that hold certain OREO properties. The operations of these subsidiaries are not significant to the consolidated Park entity.

Recent Developments

Acquisition of NewDominion Bank

On July 1, 2018, NewDominion Bank, a North Carolina state-charted bank ("NewDominion"), merged with and into Park National Bank (the "NewDominion Merger"), with Park National Bank continuing as the surviving entity pursuant to the Agreement and Plan of Merger and Reorganization, dated as of January 22, 2018 (the "NewDominion Merger Agreement"), by and among Park, Park National Bank and New Dominion.

In accordance with the terms of the NewDominion Merger Agreement, NewDominion shareholders were permitted to make an election to receive for their shares of NewDominion common stock either $1.08 in cash without interest (the "cash consideration") or 0.01023 of a Park common share, plus cash in lieu of any fractional Park common share (the "stock consideration"). Based on the terms of the NewDominion Merger Agreement, the aggregate consideration to be paid in the NewDominion Merger was subject to proration and allocation procedures to ensure that 60 percent of the shares of NewDominion common stock outstanding immediately prior to the completion of the NewDominion Merger were exchanged for the stock consideration and the remaining 40 percent of the shares of NewDominion common stock outstanding immediately prior to the completion of the NewDominion Merger were exchanged for the cash consideration, including, in each case, shares of NewDominion common stock subject to NewDominion options and restricted stock awards. The aggregate merger consideration consisted of 435,457 Park common shares, valued at $48.5 million, and $30.7 million in cash to acquire 91.45% of the outstanding shares of NewDominion common stock. The cash was funded through cash on hand from Park. The remaining 8.55% of the outstanding shares of NewDominion common stock were previously held by Park. Park recognized a gain of $3.5 million as a result of the remeasuring to fair value of its 8.55% equity interest in NewDominion held before the NewDominion Merger.

Since the July 1, 2018 effective date of the NewDominion Merger, NewDominion has operated as the NewDominion Bank Division of Park National Bank with its headquarters in Charlotte, North Carolina.

Pending Merger with CAB Financial Corporation

On September 12, 2018, Park and CAB Financial Corporation, a South Carolina corporation ("CABF"), entered into an Agreement and Plan of Merger and Reorganization (the "CABF Merger Agreement"), pursuant to which CABF will merge with and into Park (the "CABF Merger"). Following the CABF Merger, CABF's wholly-owned bank subsidiary, Carolina Alliance Bank, will merge with and into Park's wholly-owned bank subsidiary, Park National Bank, with Park National Bank as the surviving bank. Subject to the terms and conditions of the CABF Merger Agreement, at the effective time of the CABF Merger (the "CABF Effective Time"), CABF shareholders will receive, in exchange for each share of CABF's common stock, $1.00 par value per share, (i) $3.80 in cash and (ii) 0.1378 of Park's common shares (the “CABF Merger Consideration”).

At the CABF Effective Time, CABF stock options with an exercise price of less than $19.00 will be canceled and converted into the right to receive the CABF Merger Consideration. CABF stock options with an exercise price of $19.00 or more will be assumed and converted into an option to purchase Park common shares, on the same terms and conditions as were applicable under such CABF stock options. At the CABF Effective Time, CABF restricted stock awards will fully vest (with any performance-based vesting condition deemed satisfied) and will be cancelled and converted automatically into the right to receive CABF Merger Consideration.

The CABF Merger Agreement contains customary representations, warranties, and covenants of each party. CABF has agreed not to solicit acquisition proposals relating to alternative business combination transactions. In addition, CABF has agreed not to participate in discussions or negotiations or provide information in connection with any acquisition proposals for alternative business combination transactions unless certain conditions are satisfied.

Closing of the CABF Merger is subject to customary conditions, including, among others, approval of the CABF Merger Agreement by CABF’s shareholders, receipt of required regulatory approvals, effectiveness of the registration statement filed by Park to register under the Securities Act of 1933, as amended (the "Securities Act"), the Park common shares to be issued in the CABF Merger, and approval for listing on NYSE AMERICAN with respect to the Park common shares to be issued in the CABF Merger. On November 19, 2018, the Registration Statement on Form S-4 (Registration No. 333-228145) filed by Park to register under the Securities Act the Park common shares to be issued in the CABF Merger, was declared effective by the SEC. On December 17, 2018, Park National Bank received regulatory approval from the Office of the Comptroller of the Currency (the "OCC") for the merger of Carolina Alliance Bank with and into Park National Bank. On January 14, 2019, the shareholders of CABF voted in favor of approving the CABF Merger.

The CABF Merger Agreement provides certain termination rights for each party and further provides that, in the event the CABF Merger Agreement is terminated under certain circumstances in connection with a competing acquisition transaction, CABF will be required to pay Park a termination fee equal to $5,317,500.

The CABF Merger is expected to close early in the second quarter of 2019.

Services Provided by Park’s Subsidiaries

Park National Bank and its divisions provide the following principal services:

- the acceptance of deposits for demand, savings and time accounts and the servicing of those accounts;
- commercial, industrial, consumer and real estate lending, including installment loans, credit cards (which are largely offered through a third party), home equity lines of credit and commercial leasing;
- a national portfolio of loans to non-bank consumer finance companies;
- trust and wealth management services;
- aircraft financing;
- cash management;
- safe deposit operations;
- electronic funds transfers;
- Internet and mobile banking solutions with bill pay service; and
- a variety of additional banking-related services tailored to the needs of individual customers.

Park believes that the deposit mix of Park National Bank and its divisions is currently such that no material portion has been obtained from a single customer and, consequently, the loss of any one customer of Park National Bank (or

its divisions) would not have a materially adverse effect on the business of Park National Bank (or the relevant division).
Guardian Finance provides consumer finance services.

Lending Activities

Park National Bank deals with consumers as well as with a wide cross-section of businesses and corporations located primarily in the 29 Ohio counties, one county in Kentucky and two counties in North Carolina served by the financial service offices of Park National Bank. At December 31, 2018, Park National Bank had no concentration of loans to borrowers engaged in the same or similar industries that exceeded 10% of total loans nor did it have any loans outstanding to persons domiciled outside the United States. As a result of the Vision Bank - SEPH merger, SEPH holds loans originated by Vision Bank previously serviced by the financial service offices of Vision Bank. It is expected that SEPH will originate loans only to further the collection efforts with respect to the loans transferred to SEPH by operation of law as a result of the Vision Bank - SEPH merger. Such origination (or modification) volume is expected to be insignificant to the consolidated Park entity.

Park National Bank makes lending decisions in accordance with the written loan policies adopted by Park which are designed to maintain acceptable loan quality. Park National Bank originates and retains for its own portfolio commercial and commercial real estate loans, residential real estate loans, home equity lines of credit, and installment loans. Park National Bank also originates fixed-rate residential real estate loans for sale to the secondary market. Guardian Finance originates and retains for its own portfolio consumer installment loans and commercial loans. Guardian Finance makes lending decisions in accordance with the written loan policy adopted and approved by the Guardian Finance Board of Directors.

There are certain risks inherent in making loans. These risks include changes in the credit worthiness of borrowers over the time period in which loans may be repaid, interest rate changes over the time period in which loans may be repaid, risks resulting from changes in the national and local economies, risks inherent in dealing with borrowers and, in the case of loans secured by collateral, risks resulting from uncertainties about the future value of the collateral.

Commercial Loans

At December 31, 2018, Park’s subsidiaries (including Scope Aircraft Finance) had approximately $2,358 million in commercial loans (commercial, financial and agricultural loans and commercial real estate loans) and commercial leases outstanding, representing approximately 41.4% of their total aggregate loan portfolio as of that date. Of this amount, approximately $1,073 million represented commercial, financial and agricultural loans, $1,283 million represented commercial real estate loans, and $2 million represented commercial leases.

Commercial loans are made for a wide variety of general corporate purposes, including financing for industrial and commercial properties, financing for equipment, inventory and accounts receivable, acquisition financing, commercial leasing, and to consumer finance companies. 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. Information concerning the loan maturity distribution within the commercial loan portfolio is provided in Table 14 - Selected Loan Maturity Distribution included in the section of Park’s 2018 Annual Report captioned “MANAGEMENT'S DISCUSSION AND ANALYSIS,” and is incorporated herein by reference.

The commercial loan portfolio of Park’s current subsidiaries includes loans to a wide variety of corporations and businesses across many industrial classifications in the 29 Ohio counties, one Kentucky county and two North Carolina counties where Park National Bank operates and, in the case of Park's non-bank consumer finance business, across the United States. The primary industries represented by these customers include real estate rental and leasing, finance and insurance, construction, agriculture, forestry, fishing and hunting, manufacturing, retail trade, health care, accommodation and food services and other services.

Commercial loans are evaluated for the adequacy of repayment sources at the time of approval and are regularly reviewed for any possible deterioration in the ability of the borrower to repay the loan. The credit information required generally includes, depending on the amount of money lent, financial statements, third-party prepared financial statements, two years of federal income tax returns and a current credit report. Loan terms include amortization schedules commensurate with the purpose of each loan, identification of the source of each repayment and the risk involved. In most instances, collateral is required to provide an additional source of repayment in the event of default by a commercial borrower. The structure of the collateral package, including the type and amount of the collateral, varies from loan to loan depending on the financial strength of the borrower, the amount and terms of the loan and the collateral available to be pledged by the borrower. Most often, the collateral is inventory, machinery, accounts receivable and/or real estate. The guarantee of the business owners/principals is generally required on loans made to closely-held business entities.

Commercial real estate loans (“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 CRE loans is the underlying commercial real estate. Park National Bank generally requires that the CRE loan amount be no more than 85% of the purchase price or the appraised value of the commercial real estate securing the CRE loan, whichever is less. CRE loans made for Park National Bank’s portfolio generally have a variable interest rate. For more information concerning the loan maturity distribution in the CRE loan portfolio, please see Table 14 - Selected Loan Maturity Distribution included in the section of Park’s 2018 Annual Report captioned “MANAGEMENT'S DISCUSSION AND ANALYSIS,” which is incorporated herein by reference.

The regulatory limit for loans made to one borrower by Park National Bank was $106.4 million at December 31, 2018. Participations in a loan by Park National Bank in an amount larger than $30.0 million are generally sold to third-party banks or financial institutions. While Park National Bank has a loan limit of $106.4 million, the total exposure of the largest single borrower within the commercial portfolio was $30.0 million at December 31, 2018.

Park has an independent, internal loan review program which annually evaluates all loans greater than $1 million, all new loans greater than $500,000 and a risk-based sample of loans less than $1 million. If a loan has deteriorated, the lending subsidiary takes prompt action designed to increase the likelihood that it will be repaid. Upon detection of the reduced ability of a borrower to service interest and/or principal on a loan, the subsidiary may downgrade the loan and, under certain circumstances, place the loan on nonaccrual status. The subsidiary then works with the borrower to develop a payment schedule which the subsidiary anticipates will permit service of the principal and interest on the loan by the borrower. Loans which deteriorate and show the inability of a borrower to repay principal are charged down to the net realizable value of collateral. A collection specialist/work-out officer is available to assist each subsidiary when a credit deteriorates. Information about Park’s policy for placing loans on nonaccrual status is included under the caption “Loans” in Note 1 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements in Park’s 2018 Annual Report, and is incorporated herein by reference.

Commercial loans are generally viewed as having a higher credit risk than consumer loans because commercial loans usually involve larger loan balances to a single borrower and are more susceptible to a risk of default during an economic downturn. Commercial loans generally have variable interest rates. Park uses several indices for commercial loans that help determine loan interest rates. However, the national prime rate is the most common index Park uses. Credit risk for commercial loans arises from borrowers lacking the ability or willingness to pay principal or interest and, in the case of secured loans, by a shortfall in the collateral value in relation to the outstanding loan balance in the event of a default and subsequent liquidation of collateral. The underwriting of generally all commercial loans, regardless of type, includes cash flow analyses with rates shocked by 400 basis points. In the case of commercial loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of each borrower to collect amounts due from the borrower's customers. In the case of Park's commercial loans to non-bank consumer finance companies, the underlying cash flows are supported at times by sub-prime individual borrowers and present a higher level of risk compared to a more typical commercial loan to a business. Other collateral securing commercial loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the borrower’s business. Information concerning the loan loss experience and the allocation of the allowance for loan losses related to the commercial, financial and agricultural loan portfolio and the commercial real estate portfolio is provided in Table 29 - Summary of Loan Loss Experience and Table 30 - Allocation of Allowance for Loan Losses, respectively, included in the section of Park’s 2018 Annual Report captioned “MANAGEMENT'S DISCUSSION AND ANALYSIS,” and is incorporated herein by reference.

Loans to Non-Bank Consumer Finance Companies

At December 31, 2018, Park National Bank had $238 million in loans outstanding to non-bank consumer finance companies. This is a national lending unit of Park National Bank. These asset-based loans are collateralized by cash flows from individuals, typically auto loans with the consumer finance company, which is Park's borrower. These loans typically present a higher level of risk due to the underlying collateral and such risks are mitigated by more conservative underwriting and an intensive loan monitoring regimen commensurate with asset-based lending.

Aircraft Financing

Scope Aircraft Finance specializes in aircraft financing. The customers of Scope Aircraft Finance include small businesses and entrepreneurs intending to use the aircraft for business or pleasure. The customers of Scope Aircraft Finance are located throughout the United States. The lending officers of Scope Aircraft Finance are experienced in the aircraft financing industry and rely upon that experience and industry guides in determining whether to grant an aircraft loan or lease. At December 31, 2018, Scope Aircraft Finance had outstanding approximately $266 million in loans primarily secured by aircraft (which are included in the commercial loan portfolio).

Consumer Loans

At December 31, 2018, Park's subsidiaries had outstanding consumer loans (including automobile loans and leases) in an aggregate amount of $1,292 million, constituting approximately 22.7% of their aggregate total loan portfolio. Park's subsidiaries make installment credit available to customers and prospective customers in their primary market areas through direct and indirect loans. Indirect loans are facilitated through an automobile dealer; whereas, direct loans are originated through direct customer interaction with Park's subsidiaries. For both direct and indirect loans, the final credit decisions are made by Park's subsidiaries with the assistance of an automated underwriting system. At December 31, 2018, of the $1,292 million in consumer loans, $1,089 million were originated through indirect lending, while the remaining $203 million are considered direct loans. At December 31, 2018, of the $1,292 million in consumer loans, GFSC had outstanding consumer loans of $29 million and Park National Bank had the balance.

Credit approval for direct and indirect consumer loans requires income sufficient to repay principal and interest due, stability of employment, an established credit record and sufficient collateral for secured loans. It is the policy of Park to adhere strictly to all laws and regulations governing consumer lending. A compliance officer, along with the appropriate line of business leaders, are responsible for monitoring each subsidiary’s performance and advising and updating loan personnel in this area. Each subsidiary reviews its consumer loan portfolio monthly and charges off loans which do not meet Park’s standards. Information about Park’s policy for placing loans on nonaccrual status is included under the caption “Loans” in Note 1 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements in Park’s 2018 Annual Report, and is incorporated herein by reference.

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 borrowers' continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans. Information concerning the loan loss experience and the allocation of the allowance for loan losses related to the consumer loan portfolio is provided in Table 29 - Summary of Loan Loss Experience and Table 30 - Allocation of Allowance for Loan Losses, respectively, included in the section of Park’s 2018 Annual Report captioned “MANAGEMENT'S DISCUSSION AND ANALYSIS,” and is incorporated herein by reference.

Residential Real Estate and Construction Loans

At December 31, 2018, Park's subsidiaries had outstanding approximately $2,042 million in construction real estate loans and residential real estate loans, representing approximately 35.9% of total loans outstanding. Of the $2,042 million, approximately $1,794 million was included within the residential real estate loan segment, which included $430 million of commercial real estate loans, $1,134 million of mortgage loans, $215 million of home equity lines of credit and $14 million of installment loans. The remaining $248 million was included within the construction real estate loan segment, which included $175 million of commercial land and development (“CL&D”) loans, $71 million of 1-4 family residential construction loans, and $2 million of installment loans. Included within the $248 million of loans within the construction real estate loan segment was $1.6 million of loans held by SEPH. The market area for real estate lending by Park National Bank is concentrated in Ohio, Kentucky and North Carolina.

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 a current independent third-party appraisal providing the market value of the real estate securing the loan. Residential real estate loans are generally analyzed through an automated underwriting platform (system) to determine a risk classification. All loans receiving a risk classification of caution require review by a senior lender and generally require additional documentation if the loan is approved.

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Park National Bank generally requires that the residential real estate loan amount be no more than 80% of the purchase price or the appraised value of the real estate securing the loan, whichever is less, unless private mortgage insurance is obtained by the borrower. Loans in this lending category which are made to be held in the bank's portfolio are both fixed-rate and adjustable-rate, fully amortized mortgages. The rates used are generally fully-indexed rates. From time to time, Park may offer a limited-time promotional rate on funds advanced on newly-originated home equity lines of credit. Park National Bank also originates fixed-rate real estate loans for sale to the secondary market. Prior to 2010, these loans were generally sold immediately after closing. However, beginning in 2010 and continuing through December 31, 2014, Park's management made a decision to retain certain 15-year, fixed-rate residential mortgage loans, which previously would have been sold in the secondary market. Subsequent to December 31, 2014, Park has generally sold these loans in the secondary market. At December 31, 2018 and 2017, Park reported $569 million and $565 million, respectively, of 15-year, fixed-rate residential mortgage loans on the Consolidated Balance Sheets. Real estate loans are typically secured by first mortgages with evidence of title in favor of the lender in the form of an attorney's opinion of title or a title insurance policy. Park National Bank has also required proof of hazard insurance with the lender named as the mortgagee and as the loss payee. Independent third-party appraisals are generally obtained for consumer real estate loans.

Home equity lines of credit are generally secured by second mortgages by Park National Bank. The maximum amount of a home equity line of credit is generally limited to 85% of the appraised value of the property less the balance of the first mortgage. The home equity lines of credit are written with ten-year terms. A variable interest rate is generally charged on the home equity lines of credit.

Information concerning the loan loss experience and the allocation of the allowance for loan losses related to the residential real estate portfolio is provided in Table 29 - Summary of Loan Loss Experience and Table 30 - Allocation of Allowance for Loan Losses, respectively, included in the section of Park's 2018 Annual Report captioned "MANAGEMENT'S DISCUSSION AND ANALYSIS," and is incorporated herein by reference.

Construction loans include commercial construction loans as well as residential construction loans. Construction loans may be in the form of a permanent loan or a short-term construction loan, depending on the needs of the individual borrower. Generally, the permanent construction loans have a variable interest rate although a permanent construction loan may be made with a fixed interest rate for a term generally not exceeding five years. Short-term construction loans are made with variable interest rates. Information concerning the loan maturity distribution within the construction financing portfolio is provided in Table 14 - Selected Loan Maturity Distribution included in the section of Park's 2018 Annual Report captioned "MANAGEMENT'S DISCUSSION AND ANALYSIS," and is incorporated herein by reference.

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 division holding 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 division holding the loan 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 a default on a construction loan occurs and foreclosure follows, the division holding the loan must take control of the project and attempt either to arrange for completion of construction or to dispose of the unfinished project. Additional risk exists with respect to a loan made to a developer who does 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. Park National Bank attempts 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. For additional information concerning the loan loss experience, please see "ITEM 1A. RISK FACTORS – Economic, Political and Market Risks - Changes in economic and political conditions could adversely affect our earnings and capital through declines in deposits, loan demand, our borrowers' ability to repay loans, and the value of the collateral securing our loans." and "– Business Operations Risks - Our allowance for loan losses may prove to be insufficient to absorb the probable, incurred losses in our loan portfolio." in this Annual Report on Form 10-K. Information concerning the loan loss experience and the allocation of the allowance for loan losses related to the construction financing portfolio is provided in Table 29 - Summary of Loan Loss Experience and Table 30 - Allocation of Allowance for Loan Losses, respectively, included in the section of Park’s 2018 Annual Report captioned “MANAGEMENT'S DISCUSSION AND ANALYSIS,” and is incorporated herein by reference.

SE Property Holdings, LLC

SEPH is a non-bank subsidiary of Park, holding OREO property and non-performing loans. In addition to approximately $1.5 million in OREO property, SEPH also held approximately $1.6 million in loans as of December 31, 2018, all of which were on nonaccrual status. SEPH has one office in Licking County, Ohio. The SEPH employees are dedicated to working with a third-party work-out specialist to ensure effective and efficient resolution to the non-performing loans and OREO, while working closely with the borrowers of the loans to maximize collection efforts. It is expected that the loans and OREO will reduce over time and result in cash in-flow to Park.

Competition

The financial services industry is highly competitive. Park’s subsidiaries compete with other local, regional and national service providers, including banks, savings associations, credit unions and other types of financial institutions and finance companies. Other competitors include securities dealers, brokers, mortgage bankers, investment advisors and financial services subsidiaries of commercial and manufacturing companies. Competition within the financial services industry continues to increase as a result of mergers between, and expansion of, providers of financial services within and outside Park’s primary market area.

The primary factors in competing for loans are interest rates charged and overall services provided to borrowers. The primary factors in competing for deposits are interest rates paid on deposits, account liquidity, convenience and hours of office locations, convenience and availability of mobile banking options, and accessibility to trained and competent staff to deliver services. However, some competitors of Park’s subsidiaries may have greater resources and, as such, higher lending limits, which may adversely affect the ability of Park’s subsidiaries to compete. In addition, some of the providers of financial services with which Park’s subsidiaries compete enjoy the benefits of fewer regulatory constraints and lower cost structures.

Employees

At December 31, 2018, Park and its subsidiaries had 1,782 full-time equivalent employees.

Supervision and Regulation of Park and its Subsidiaries

Park, Park National Bank and Park’s other subsidiaries are subject to extensive regulation by federal and state agencies. The regulation of financial holding companies and their subsidiaries is intended primarily for the protection of consumers, depositors, borrowers, the FDIC’s Deposit Insurance Fund and the banking system as a whole and not for the protection of shareholders. Applicable laws and regulations restrict permissible activities and investments and require actions to protect loan, deposit, brokerage, fiduciary and other customers, as well as the FDIC’s Deposit Insurance Fund. They also may restrict Park’s ability to repurchase its common shares or to receive dividends from Park National Bank and impose capital adequacy and liquidity requirements.

As a financial holding company, Park is subject to regulation by the Federal Reserve Board under the Bank Holding Company Act and to inspection, examination and supervision by the Federal Reserve Board. Park is also subject to the disclosure and regulatory requirements of the Securities Act, and the Exchange Act, as administered by the SEC. Park’s common shares are listed on NYSE AMERICAN under the trading symbol “PRK,” which subjects Park to the requirements under the applicable sections of the NYSE AMERICAN Company Guide for listed companies.

Park National Bank, as a national banking association, is subject to regulation, supervision and examination primarily by the OCC and secondarily by the FDIC.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") established the Consumer Financial Protection Bureau (the "CFPB"), which regulates consumer financial products and services and certain financial services providers. The CFPB is authorized to prevent unfair, deceptive or abusive acts or practices and ensures consistent enforcement of laws so that consumers have access to fair, transparent and competitive markets for consumer financial products and services. Since its establishment, the CFPB has exercised extensively its rulemaking and interpretative authority.

Guardian Finance, as an Ohio state-chartered consumer finance company, is subject to regulation, supervision and examination by the Ohio Division of Financial Institutions and, as a subsidiary of Park, examination and supervision by the Federal Reserve Board.

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As a subsidiary of Park, SEPH is subject to inspection, examination and supervision by the Federal Reserve Board.

The following information describes selected federal and state statutory and regulatory provisions and is qualified in its entirety by reference to the full text of the particular statutory or regulatory provisions. These statutes and regulations are continually under review by the United States Congress and state legislatures and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to Park and its subsidiaries could have a material effect on their respective businesses.

Regulation of Financial Holding Companies

As a financial holding company, Park's activities are subject to extensive regulation by the Federal Reserve Board. Park is required to file reports with the Federal Reserve Board and such additional information as the Federal Reserve Board may require, and is subject to regular examinations by the Federal Reserve Board.

The Federal Reserve Board also has extensive enforcement authority over financial holding companies, including, among other things, the ability to:

- assess civil money penalties;
- issue cease and desist or removal orders; and
- require that a financial holding company divest subsidiaries (including a subsidiary bank).

In general, the Federal Reserve Board may initiate enforcement actions for violations of laws and regulations and unsafe or unsound practices.

A financial holding company is required by law and Federal Reserve Board policy to act as a source of financial strength to each subsidiary bank and to commit resources to support such subsidiary bank. The Federal Reserve Board may require a financial holding company to contribute additional capital to an undercapitalized subsidiary bank and may disapprove of the payment of dividends to shareholders if the Federal Reserve Board believes the payment of such dividends would be an unsafe or unsound practice.

The Bank Holding Company Act requires the prior approval of the Federal Reserve Board in any case where a financial holding company proposes to:

- acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank that is not already majority-owned by the financial holding company;
- acquire all or substantially all of the assets of another bank or another financial or bank holding company; or
- merge or consolidate with any other financial or bank holding company.

A qualifying bank holding company may elect to become a financial holding company and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature and not otherwise permissible for a bank holding company, if (i) the holding company is "well managed" and "well capitalized" and (ii) each of its subsidiary banks is well capitalized under the Federal Deposit Insurance Corporation Act of 1991 prompt corrective action provisions, is well managed, and has at least a satisfactory rating under the Community Reinvestment Act. Park became a financial holding company in 2014. No regulatory approval is required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board.

The Financial Services Modernization Act defines "financial in nature" to include:

- securities underwriting, dealing and market making;
- sponsoring mutual funds and investment companies;

- insurance underwriting and agency;

- merchant banking; and

- activities that the Federal Reserve Board has determined to be closely related to banking.

A national bank also may engage, subject to limitations on investment, in activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development and real estate investment, through a financial subsidiary of the bank, if the bank is well capitalized and well managed and has at least a satisfactory Community Reinvestment Act rating. If a financial holding company or a subsidiary bank fails to maintain all requirements for the holding company to maintain financial holding company status, material restrictions may be placed on the activities of the holding company and its subsidiaries and on the ability of the holding company to enter into certain transactions and obtain regulatory approvals for new activities and transactions. The holding company could also be required to divest itself of subsidiaries that engage in activities that are not permitted for bank holding companies that are not financial holding companies. If restrictions are imposed on the activities of a financial holding company, the existence of such restrictions may not be made publicly available pursuant to confidentiality regulations of the bank regulatory agencies.

Each subsidiary bank of a financial holding company is subject to certain restrictions on the maintenance of reserves against deposits, extensions of credit to the financial holding company or any of its subsidiaries, investments in the stock or other securities of the financial holding company or its subsidiaries and the taking of such stock or securities as collateral for loans to any borrower. Further, a financial holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property or furnishing of any services. Various consumer laws and regulations also affect the operations of these subsidiaries.

Economic Growth, Regulatory Relief and Consumer Protection Act

On May 25, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "Regulatory Relief Act") was signed into law. The Regulatory Relief Act was designed to provide regulatory relief for banking organizations, particularly for all but the very largest, those with assets in excess of $250 billion. Bank holding companies with assets of less than $100 billion are no longer subject to enhanced prudential standards, and those with assets between $100 billion and $250 billion will be relieved of those requirements in 18 months, unless the Federal Reserve Board takes action to maintain those standards. Certain regulatory requirements applied only to banks with assets in excess of $50 billion and so did not apply to Park even before the enactment of the Regulatory Relief Act.

The Regulatory Relief Act also provides that the banking regulators must adopt regulations implementing the provision that banking organizations with assets of less than $10 billion are permitted to satisfy capital standards and be considered "well capitalized" under the prompt corrective action framework if their leverage ratios of tangible equity to average consolidated assets is between 8% and 10%, unless the banking organization's federal banking agency determines that the banking organization's risk profile warrants a more stringent leverage ratio. The OCC, the Federal Reserve Board and the FDIC have proposed for comment the leverage ratio framework for any banking organization with total consolidated assets of less than $10 billion, limited amounts of certain types of assets and off-balance sheet exposures, and a community bank leverage ratio greater than 9%. The community bank leverage ratio would be calculated as the ratio of tangible equity capital divided by average total consolidated assets. Tangible equity capital would be defined as total bank equity capital or total holding company equity capital, as applicable, prior to including minority interests, and excluding accumulated other comprehensive income, deferred tax assets arising from net operating loss and tax credit carry forwards, goodwill and other intangible assets (other than mortgage servicing assets). Average total assets would be calculated in a manner similar to the current tier 1 leverage ratio denominator in that amounts deducted from the community bank leverage ratio numerator would also be excluded from the community bank leverage ratio denominator.

The OCC, the Federal Reserve Board and the FDIC also adopted a rule providing banking organizations with the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from the adoption of new current expected credit loss methodology accounting under United States generally accepted accounting principles.

The Regulatory Relief Act also relieves bank holding companies and banks with assets of less than $100 billion in assets from certain record-keeping, reporting and disclosure requirements.

Transactions with Affiliates, Directors, Executive Officers and Shareholders

Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Board Regulation W generally:

- limit the extent to which a bank or its subsidiaries may engage in “covered transactions” with any one affiliate;

- limit the extent to which a bank or its subsidiaries may engage in “covered transactions” with all affiliates; and
- require that all such transactions be on terms substantially the same, or at least as favorable to the bank or subsidiary, as those provided to a non-affiliate.

An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. The term “covered transaction” includes the making of loans to the affiliate, the purchase of assets from the affiliate, the issuance of a guarantee on behalf of the affiliate, the purchase of securities issued by the affiliate and other similar types of transactions.

A bank’s authority to extend credit to executive officers, directors and greater than 10% shareholders, as well as entities such persons control, is subject to Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated thereunder by the Federal Reserve Board. Among other things, these loans must be made on terms (including interest rates charged and collateral required) substantially the same as those offered to unaffiliated individuals or be made as part of a benefit or compensation program and on terms widely available to employees, and must not involve a greater than normal risk of repayment. In addition, the amount of loans a bank may make to these persons is based, in part, on the bank’s capital position, and specified approval procedures must be followed in making loans which exceed specified amounts.

Regulation of Nationally-Chartered Banks

As a national banking association, Park National Bank is subject to regulation under the National Banking Act and is periodically examined by the OCC. OCC regulations govern permissible activities, capital requirements, dividend limitations, investments, loans and other matters. Furthermore, Park National Bank is subject, as a member bank, to certain rules and regulations of the Federal Reserve Board, many of which restrict activities and prescribe documentation to protect consumers. Park National Bank is an insured depository institution and a member of the FDIC's Deposit Insurance Fund (the "DIF"). As a result, it is subject to regulation and deposit insurance assessments by the FDIC. In addition, the establishment of branches by Park National Bank is subject to prior approval of the OCC. The OCC has broad enforcement powers over national banks, including the power to impose fines and other civil and criminal penalties and to appoint a conservator or receiver if any of a number of conditions are met.

The CFPB regulates consumer financial products and services provided by Park National Bank through regulations designed to protect consumers.

Federal Deposit Insurance

The FDIC is an independent federal agency which insures the deposits, up to prescribed statutory limits, of federally-insured banks and savings associations and safeguards the safety and soundness of the financial institution industry. The general insurance limit is $250,000 per separately insured depositor. This insurance is backed by th