PARK NATIONAL CORP /OH/
Form 10-Q
October 26, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

o **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 þ No o

Indicated 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 proceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check mark whether the registrant is a large accelerated file, 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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company o

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

Yes o No þ

14,259,971 Common shares, no par value per share, outstanding at October 24, 2009.

PARK NATIONAL CORPORATION

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

	September 30, 2009	December 31, 2008
Assets:		
Cash and due from banks	**$ 127,079**	$ 150,298
Money market instruments	**10,583**	20,963
Cash and cash equivalents	**137,662**	171,261
Interest bearing deposits	**1**	1
Securities available-for-sale, at fair value (amortized cost of $1,294,092 and $1,513,223 at September 30, 2009 and December 31, 2008)	**1,356,971**	1,561,896
Securities held-to-maturity, at amortized cost (fair value of $465,903 and $433,435 at September 30, 2009 and December 31, 2008)	**448,062**	428,350
Other investment securities	**68,919**	68,805
Loans	**4,615,101**	4,491,337
Allowance for loan losses	**(110,040)**	(100,088)
Net loans	**4,505,061**	4,391,249
Bank premises and equipment, net	**67,194**	68,553
Bank owned life insurance	**136,555**	132,916
Goodwill and other intangible assets	**82,735**	85,545
Other real estate owned	**47,015**	25,848
Mortgage loan servicing rights	**10,543**	8,306
Accrued income and other assets	**109,960**	127,990
Total assets	**$ 6,970,678**	$ 7,070,720

Liabilities and Stockholders Equity:

Deposits:				
Noninterest bearing	**$**	**817,897**	$	782,625
Interest bearing		**4,297,079**		3,979,125
Total deposits		**5,114,976**		4,761,750
Short-term borrowings		**345,167**		659,196
Long-term debt		**681,590**		855,558
Subordinated debentures		**40,000**		40,000
Accrued expenses and other liabilities		**101,618**		111,553
Total liabilities		**6,283,351**		6,428,057
COMMITMENTS AND CONTINGENCIES				
Stockholders equity:				
Preferred stock (200,000 shares authorized at September 30, 2009 and December 31, 2008; 100,000 shares issued at September 30, 2009 and December 31, 2008 with $1,000 per share liquidation preference)		**96,292**		95,721
Common stock (No par value; 20,000,000 shares authorized; 16,151,123 shares issued at September 30, 2009 and 16,151,151 shares issued at December 31, 2008)		**301,209**		301,210
Common stock warrant		**4,297**		4,297
Retained earnings		**447,122**		438,504
Treasury stock (1,891,152 shares at September 30, 2009 and 2,179,424 shares at December 31, 2008)		**(181,611)**		(207,665)
Accumulated other comprehensive income, net of taxes		**20,018**		10,596
Total stockholders equity		**687,327**		642,663
Total liabilities and stockholders equity	**$**	**6,970,678**	$	7,070,720

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Interest and dividend income:				
Interest and fees on loans	**$ 69,339**	$ 75,167	**$ 206,923**	$ 229,109
Interest and dividends on:				
Obligations of U.S. Government, its agencies and other securities	**22,204**	22,204	**69,233**	65,538
Obligations of states and political subdivisions	**316**	488	**1,131**	1,707
Other interest income	**9**	88	**38**	262
Total interest and dividend income	**91,868**	97,947	**277,325**	296,616
Interest expense:				
Interest on deposits:				
Demand and savings deposits	**2,768**	5,573	**8,482**	18,266
Time deposits	**13,362**	15,527	**41,536**	51,344
Interest on borrowings:				
Short-term borrowings	**688**	3,265	**2,685**	12,097
Long-term debt	**6,588**	8,354	**19,933**	23,871
Total interest expense	**23,406**	32,719	**72,636**	105,578
Net interest income	**68,462**	65,228	**204,689**	191,038
Provision for loan losses	**14,958**	15,906	**43,101**	37,869
Net interest income after provision for loan losses	**53,504**	49,322	**161,588**	153,169

Other income:				
Income from fiduciary activities	**3,071**	3,356	**9,071**	10,639
Service charges on deposit accounts	**5,788**	6,434	**16,381**	18,285
Other service income	**3,895**	2,361	**15,179**	8,299
Other	**5,411**	4,937	**16,501**	19,447
Total other income	**18,165**	17,088	**57,132**	56,670
Gain on sale of securities			**7,340**	896

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Other expense:				
Salaries and employee benefits	**$ 25,589**	$ 25,105	**$ 76,410**	$ 74,262
Occupancy expense	**2,772**	2,850	**8,812**	8,758
Furniture and equipment expense	**2,463**	2,412	**7,339**	7,305
Goodwill impairment charge		54,986		54,986
Other expense	**15,228**	14,126	**49,504**	41,878
Total other expense	**46,052**	99,479	**142,065**	187,189
Income (loss) before income taxes	**25,617**	(33,069)	**83,995**	23,546
Income taxes	**6,418**	5,343	**22,099**	20,789
Net income (loss)	**$ 19,199**	$ (38,412)	**$ 61,896**	$ 2,757
Preferred stock dividends and accretion	**1,440**		**4,321**	
Income (loss) available to common shareholders	**$ 17,759**	$ (38,412)	**$ 57,575**	$ 2,757
Per Common Share:				
Income (loss) available to common shareholders Basic	**$ 1.25**	$ (2.75)	**$ 4.10**	$ 0.20
Diluted	**$ 1.25**	$ (2.75)	**$ 4.10**	$ 0.20
Weighted average common shares outstanding Basic	**14,193,411**	13,964,549	**14,055,580**	13,964,561

Diluted	**14,193,411**	13,964,549	**14,055,580**	13,964,561
Cash dividends declared	**$ 0.94**	$ 0.94	**$ 2.82**	$ 2.82

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

Nine Months ended September 30, 2009 and 2008	Preferred Stock	Common Stock	Retained Earnings	Treasury Stock at Cost	Accumulated Other Comprehensive Income (loss)	Comprehensive Income
BALANCE AT DECEMBER 31, 2007	$ 0	$ 301,213	$ 489,511	$ (208,104)	$ (2,608)	
Net Income			2,757			$ 2,757
Other comprehensive income (loss), net of tax: Unrealized net holding loss on cash flow hedge, net of taxes ($23)					(42)	(42)
Unrealized net holding loss on securities available-for-sale, net of taxes ($937)					(1,740)	(1,740)
Total comprehensive income						$ 975
Cash dividends on common stock at $2.82 per share			(39,335)			
Cash payment for fractional shares in dividend reinvestment plan		(2)				
Cumulative effect of new accounting pronouncement pertaining to endorsement split-dollar life insurance			(11,634)			
SFAS No.158 measurement date adjustment, net of taxes ($178)			(331)			
BALANCE AT SEPTEMBER 30, 2008	$ 0	$ 301,211	$ 440,968	$ (208,104)	$ (4,390)	
BALANCE AT DECEMBER 31, 2008	**$ 95,721**	**$ 305,507**	**$ 438,504**	**$ (207,665)**	**$ 10,596**	
Net Income			**61,896**			**$ 61,896**
Other comprehensive income, net of tax: Unrealized net holding gain on cash flow hedge, net of taxes $102					**188**	**188**
Unrealized net holding gain on securities available-for-sale, net of taxes $4,972					**9,234**	**9,234**
Total comprehensive income						**$ 71,318**

Cash dividends on common stock at $2.82 per share			**(39,573)**		
Cash payment for fractional shares in dividend reinvestment plan		**(1)**			
Reissuance of common stock from treasury shares held			**(9,384)**	**26,054**	
Accretion of discount on preferred stock	**571**		**(571)**		
Preferred stock dividends			**(3,750)**		
BALANCE AT SEPTEMBER 30, 2009	**$ 96,292**	**$ 305,506**	**$ 447,122**	**$ (181,611)**	**$ 20,018**

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Operating activities:		
Net income	**$ 61,896**	$ 2,757
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, accretion and amortization	**2,161**	263
Provision for loan losses	**43,101**	37,869
Other-than-temporary impairment on investment securities	**613**	774
Stock dividends on Federal Home Loan Bank stock		(2,269)
Goodwill impairment charge		54,986
Amortization of core deposit intangibles	**2,810**	3,019
Realized net investment security gains	**(7,340)**	(896)
Changes in assets and liabilities:		
Increase in other assets	**(13,985)**	(9,617)
(Decrease) increase in other liabilities	**(10,275)**	166
Net cash provided by operating activities	**78,981**	87,052
Investing activities:		
Proceeds from sales of available-for-sale securities	**204,304**	80,894
Proceeds from maturity of:		
Available-for-sale securities	**363,547**	245,560
Held-to-maturity securities	**29,876**	5,829
Purchases of:		
Available-for-sale securities	**(339,895)**	(355,612)

Held-to-maturity securities	**(49,586)**	(76,705)
Net increase in other investments	**(114)**	(3,370)
Net increase in loans	**(155,473)**	(274,177)
Purchases of bank owned life insurance, net		(8,107)
Purchases of premises and equipment, net	**(4,342)**	(8,571)
Net cash provided by (used for) investing activities	**48,317**	(394,259)

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

	Nine Months Ended September 30, 2009	2008
Financing activities:		
Net increase in deposits	**$ 353,226**	$ 335,270
Net decrease in short-term borrowings	**(314,029)**	(179,012)
Proceeds from issuance of long-term debt	**60,100**	390,100
Repayment of long-term debt	**(234,068)**	(196,069)
Cash payment for fractional shares in dividend reinvestment plan	**(1)**	(2)
Proceeds from reissuance of common stock from treasury shares held	**16,670**	
Cash dividends paid on common stock and preferred stock	**(42,795)**	(52,508)
Net cash (used for) provided by financing activities	(160,897)	297,779
Decrease in cash and cash equivalents	**(33,599)**	(9,428)
Cash and cash equivalents at beginning of year	**171,261**	193,397
Cash and cash equivalents at end of period	**$ 137,662**	$ 183,969
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	**$ 73,869**	$ 108,315
Income taxes	**$ 20,600**	$ 25,220

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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PARK NATIONAL CORPORATION
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 Basis of Presentation

The accompanying unaudited consolidated condensed financial statements included in this report have been prepared by Park National Corporation (the Registrant , Corporation , Company , or Park) and all of 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, 2009 are not necessarily indicative of the operating results to be anticipated for the fiscal year ending December 31, 2009.

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, 2008 from Park s 2008 Annual Report to Shareholders.

Park s significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in Park s 2008 Annual Report to Shareholders. 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 through October 26, 2009 (the financial statement issuance date), determining no events require additional disclosure in these consolidated condensed financial statements.

Note 2 Recent Accounting Pronouncements

Adoption of New Accounting Pronouncements:

Accounting for Business Combinations: Park adopted new guidance impacting Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, *Business Combinations* (SFAS 141(R), Business Combinations), on January 1, 2009. This guidance was issued with the objective to improve the comparability of information that a company provides in its financial statements related to a business combination. This new guidance establishes principles and requirements for how the acquirer: (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This new guidance does not apply to combinations between entities under common control. The Company s adoption of the new guidance had no impact on Park s financial statements and applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

Noncontrolling Interests in Consolidated Financial Statements: Park adopted new guidance impacting FASB ASC 810-10, *Consolidation* (SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements), on January 1, 2009. A noncontrolling interest, also known as a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. This guidance was issued with the objective to improve upon the consistency of financial information that a company provides in its consolidated financial statements. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company s adoption of the new guidance did not have a material impact on Park s consolidated financial statements.

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Disclosures about Derivative Instruments and Hedging Activities: Park adopted new guidance impacting FASB ASC 815-10, *Derivatives and Hedging* (SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities), on January 1, 2009. This guidance requires enhanced disclosures about an entity s derivative and hedging activities and therefore should improve the transparency of financial reporting, and is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company s adoption of the new guidance did not have a material impact on Park s consolidated financial statements.

Subsequent Events: Park adopted FASB ASC 855, *Subsequent Events* (SFAS No. 165 Subsequent Events), on June 30, 2009. This guidance establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company s adoption of this guidance did not have a material impact on Park s consolidated financial statements.

Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly: In April 2009, the FASB issued new guidance impacting FASB ASC 820, *Fair Value Measurements and Disclosures* (FASB Staff Position (FSP) FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly). This provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This also includes guidance on identifying circumstances that indicate a transaction is not orderly. The Company s adoption of the new guidance, did not have a material impact on Park s consolidated financial statements. See Note 14 Fair Value for disclosures required by this new guidance.

Interim Disclosures about Fair Value of Financial Instruments: Park adopted new guidance impacting FASB ASC 825-10-50, *Financial Instruments* (FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments), effective June 30, 2009. This guidance amended existing GAAP to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The Company s adoption of the new guidance did not have a material impact on Park s consolidated financial statements. See Note 14 Fair Value for disclosures required by this new guidance.

Recognition and Presentation of Other-Than-Temporary Impairments: In April 2009, the FASB issued new guidance impacting FASB ASC 320-10, *Investments Debt and Equity Securities* (FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments). This guidance amends the other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The Company s adoption of the new guidance did not have a material impact on Park s consolidated financial statements as Park has not experienced other-than-temporary impairment within its debt securities portfolio.

Recently Issued but not yet Effective Accounting Pronouncements:

Accounting for Transfers of Financial Assets: In June 2009, FASB issued SFAS No. 166 Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140. This removes the concept of a qualifying special-purpose entity from existing GAAP and removes the exception from applying FASB ASC 810-10, *Consolidation* (FASB Interpretation No. 46 (revised December 2003) Consolidation of Variable Interest Entities) to qualifying special purpose entities. The objective of this new guidance is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement in transferred financial assets. The new guidance will be effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009 (for Park this will be as of January 1, 2010), for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Management is still evaluating the impact of this accounting standard.

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Amendments to FASB Interpretation No. 46(R): In June 2009, FASB issued SFAS No. 167 *Amendments to FASB Interpretation No. 46(R).* The objective of this new guidance is to amend certain requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities,* to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. This guidance will be effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009 (for Park, this will be as of January 1, 2010), for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. Management is still evaluating the impact of this accounting standard.

Note 3 Goodwill and Intangible Assets

The following table shows the activity in goodwill and core deposit intangibles for the first nine months of 2009.

(In Thousands)	Goodwill	Core Deposit Intangibles	Total
December 31, 2008	$ 72,334	$ 13,211	$ 85,545
Amortization		(2,810)	(2,810)
September 30, 2009	$ 72,334	$ 10,401	$ 82,735

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 approximately $0.9 million for the fourth quarter of 2009.

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

(In Thousands)	Annual Amortization
2009	$ 3,746
2010	3,422
2011	2,677
2012	2,677
2013	689
Total	$ 13,211

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Note 4 Loans and Allowance for Loan Losses

The composition of the loan portfolio was as follows at the dates shown:

(In Thousands)	September 30, 2009	December 31, 2008
Commercial, Financial and Agricultural	$ 719,369	$ 714,296
Real Estate:		
Construction	506,777	533,788
Residential	1,532,859	1,560,198
Commercial	1,141,209	1,035,725
Consumer	711,337	643,507
Leases	3,550	3,823
Total Loans	$ 4,615,101	$ 4,491,337

Nonperforming loans are summarized as follows:

(In Thousands)	September 30, 2009	December 31, 2008
Impaired Loans		
Nonaccrual	$ 179,377	$ 140,097
Restructured	148	2,845
Total Impaired Loans	179,525	142,942
Other Nonaccrual Loans	27,687	19,415
Total Nonaccrual and Restructured Loans	$ 207,212	$ 162,357
Loans Past Due 90 Days or More and Accruing	4,849	5,421
Total Nonperforming Loans	$ 212,061	$ 167,778

The allowance for loan losses, specifically related to impaired loans at September 30, 2009 and December 31, 2008, was $21.1 million and $8.9 million, respectively.

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 the critical accounting policy discussion in Park s 2008 Annual Report to Shareholders.

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The following table shows the activity in the allowance for loan losses for the three and nine months ended September 30, 2009 and 2008.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2009	2008	2009	2008
Average Loans	$ 4,610,716	$ 4,409,188	$ 4,582,037	$ 4,317,204
Allowance for Loan Losses:				
Beginning Balance	$ 104,804	$ 86,045	$ 100,088	$ 87,102
Charge-Offs:				
Commercial, Financial and Agricultural	2,066	825	7,157	2,050
Real Estate Construction	3,677	7,630	12,613	19,924
Real Estate Residential	1,720	2,326	6,923	7,991
Real Estate Commercial	1,791	630	3,258	2,811
Consumer	2,324	2,516	8,318	7,196
Lease Financing			9	4
Total Charge-Offs	11,578	13,927	38,278	39,976
Recoveries:				
Commercial, Financial and Agricultural	235	203	795	612
Real Estate Construction	557	12	1,079	62
Real Estate Residential	411	268	1,126	548
Real Estate Commercial	291	48	583	350
Consumer	361	639	1,543	2,611
Lease Financing	1	1	3	17
Total Recoveries	1,856	1,171	5,129	4,200
Net Charge-Offs	9,722	12,756	33,149	35,776
Provision for Loan Losses	14,958	15,906	43,101	37,869
Ending Balance	$ 110,040	$ 89,195	$ 110,040	$ 89,195
Annualized Ratio of Net Charge-Offs to Average Loans	0.84%	1.15%	0.97%	1.11%
Ratio of Allowance for Loan Losses to End of Period Loans	2.38%	2.00%	2.38%	2.00%

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Note 5 Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings (loss) per common share for the three and nine months ended September 30, 2009 and 2008.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Thousands, Except Per Share Data)	2009	2008	2009	2008
Numerator:				
Income (Loss) Available to Common Shareholders	$ 17,759	$ <38,412>	$ 57,575	$ 2,757
Denominator:				
Denominator for Basic Earnings (Loss) Per Share (Weighted Average Common Shares Outstanding)	14,193,411	13,964,549	14,055,580	13,964,561
Effect of Dilutive Securities				
Denominator for Diluted Earnings Per Share (Weighted Average Common Shares Outstanding Adjusted for the Dilutive Securities)	14,193,411	13,964,549	14,055,580	13,964,561
Earnings (Loss) Per Common Share:				
Basic Earnings (Loss) Per Common Share	$ 1.25	$ <2.75>	$ 4.10	$ 0.20
Diluted Earnings (Loss) Per Common Share	$ 1.25	$ <2.75>	$ 4.10	$ 0.20

For the three and nine month periods ended September 30, 2009, options to purchase a weighted average 305,292 and 375,768 common shares, respectively, were outstanding under Park s stock option plans. Additionally, a warrant to purchase 227,376 common shares was outstanding at September 30, 2009, related to our participation in the U.S. Treasury Capital Purchase Program (CPP). For the three and nine month periods ended September 30, 2008, options to purchase a weighted average 474,608 and 519,082 common shares, respectively, were outstanding under Park s stock option plans. The common shares represented by the options and the warrant for the three and nine month periods ended September 30, 2009, totaling 532,668 and 603,144, respectively, and the common shares represented by the options for the three and nine month periods ended September 30, 2008, totaling 474,608 and 519,082, 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.

Note 6 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) (VIS). 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, 2009
(In Thousands)

	PNB	VIS	All Other	Total
Net Interest Income	$ 59,396	$ 6,017	$ 3,049	$ 68,462
Provision for Loan Losses	4,433	10,030	495	14,958
Other Income and Security Gains	17,820	263	82	18,165
Other Expense	36,270	6,926	2,856	46,052
Net Income (Loss)	25,087	<6,570>	682	19,199
Balances at September 30, 2009				
Assets	$ 6,075,863	$ 874,069	$ 20,746	$ 6,970,678

Operating Results for the Three Months Ended September 30, 2008
(In Thousands)

	PNB	VIS	All Other	Total
Net Interest Income	$ 56,096	$ 6,928	$ 2,204	$ 65,228
Provision for Loan Losses	3,988	11,474	444	15,906
Other Income and Security Gains	16,940	48	100	17,088
Goodwill Impairment		54,986		54,986
Other Expense	34,575	6,383	3,535	44,493
Net Income (Loss)	23,099	<61,682>	171	<38,412>
Balances at September 30, 2008				
Assets	$ 5,966,890	$ 870,148	$ <37,305>	$ 6,799,733

Operating Results for the Nine Months Ended September 30, 2009
(In Thousands)

	PNB	VIS	All Other	Total
Net Interest Income	$ 176,568	$ 19,307	$ 8,814	$ 204,689
Provision for Loan Losses	13,113	28,430	1,558	43,101
Other Income and Security Gains	62,162	2,060	250	64,472
Other Expense	111,861	20,838	9,366	142,065
Net Income (Loss)	77,475	<17,145>	1,566	61,896

Operating Results for the Nine Months Ended September 30, 2008
(In Thousands)

	PNB	VIS	All Other	Total
Net Interest Income	$ 163,672	$ 20,609	$ 6,757	$ 191,038
Provision for Loan Losses	8,752	27,729	1,388	37,869
Other Income and Security Gains	54,983	2,172	411	57,566
Goodwill Impairment		54,986		54,986
Other Expense	101,810	19,821	10,572	132,203
Net Income (Loss)	72,276	<70,216>	697	2,757

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, 2009 and 2008. The reconciling amounts for consolidated total assets for both the three and nine month periods ended September 30, 2009 and 2008, consist of the elimination of intersegment borrowings and the assets of the Parent Company and GFC which are not eliminated.

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Note 7 Stock Option Plans

Park did not grant any stock options during the nine month periods ended September 30, 2009 and 2008. Additionally, no stock options vested during the first nine months of 2009 or 2008.

The following table summarizes stock option activity during the first nine months of 2009.

	Stock Options	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2008	452,419	$ 102.33
Granted		
Exercised		
Forfeited/Expired	182,923	$ 107.29
Outstanding at September 30, 2009	269,496	$ 98.95

All of the stock options outstanding at September 30, 2009 were exercisable. The aggregate intrinsic value of the outstanding stock options at September 30, 2009 was $0.

No stock options were exercised during the first nine months of 2009 or 2008. The weighted average contractual remaining term was 1.45 years for the stock options outstanding at September 30, 2009.

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) and the Park National Corporation 1995 Incentive Stock Option Plan (the 1995 Plan) are to be treasury shares. At September 30, 2009, incentive stock options (granted under both the 2005 Plan and the 1995 Plan) covering 269,474 common shares were outstanding. The remaining outstanding stock options at September 30, 2009, covering 22 common shares, were granted under a stock option plan (the Security Plan) assumed by Park in the acquisition of Security Banc Corporation in 2001. At September 30, 2009, Park held 1,008,681 treasury shares that are allocated for the stock option plans (including the Security Plan).

Note 8 Mortgage Loans Held For Sale

Mortgage loans held for sale are carried at their fair value as of September 30, 2009 and at the lower of cost or fair value at December 31, 2008. Effective January 1, 2009, Park elected the fair value option of accounting for mortgage loans held for sale that were originated after January 1, 2009. At September 30, 2009, Park had approximately $12.0 million in mortgage loans held for sale, compared to $38.9 million at June 30, 2009, which represents a decline of $26.9 million during the third quarter of 2009. At December 31, 2008, Park had approximately $9.6 million in mortgage loans held for sale. These amounts are included in loans on the consolidated condensed balance sheets.

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Note 9 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. During 2008, management determined that Park s unrealized losses in the stocks of several financial institutions were other-than-temporarily impaired due to the duration and severity of the losses. Therefore, Park recognized losses of $980 thousand during 2008. For the three months ended September 30, 2009, there were no investment securities impairments recognized. For the nine month period ended September 30, 2009, Park recognized impairment charges of $613 thousand, related to equity investments in several financial institutions. These impairment charges represented the difference between each investment s cost and fair value. For the three and nine month periods ended September 30, 2008, impairment charges of $335 thousand and $774 thousand, respectively, were recorded.

(In Thousands) September 30, 2009 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	$ 339,899	$ 2,636	$	$ 342,535
Obligation of States and Political Subdivisions	20,271	661		20,932
U.S. Government Sponsored Entities Asset-Backed Securities	932,961	58,984		991,945
Equity Securities	961	640	42	1,559
Total	$ 1,294,092	$ 62,921	$ 42	$ 1,356,971

September 30, 2009 Securities Held-to-Maturity	Amortized Cost	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Estimated Fair Value
Obligations of States and Political Subdivisions	$ 5,077	$ 38	$	$ 5,115
U.S. Government Sponsored Entities Asset-Backed Securities	442,985	17,803		460,788
Total	$ 448,062	$ 17,841	$	$ 465,903

At September 30, 2009, gross unrealized holding losses were limited to $42 thousand of unrealized losses in equity securities. Management does not believe any of the unrealized losses at September 30, 2009 or December 31, 2008, represents 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 in net income in the period the other-than-temporary impairment is identified.

Securities with unrealized losses at September 30, 2009, were as follows:

(In thousands)	Less than 12 months		12 months or longer		Total	
September 30, 2009 Securities Available-for-Sale	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
Other equity securities	$	$	$ 216	$ 42	$ 216	$ 42

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Investment securities at December 31, 2008, were as follows:

December 31, 2008 Securities Available-for-Sale	(In Thousands) Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Obligations of U.S. Treasury And Other U.S. Government Sponsored Entities	$ 127,628	$ 1,060	$	$ 128,688
Obligation of States and Political Subdivisions	26,424	503	33	26,894
U.S. Government Sponsored Entities Asset-Backed Securities	1,357,710	47,050	229	1,404,531
Equity Securities	1,461	428	106	1,783
Total	$ 1,513,223	$ 49,041	$ 368	$ 1,561,896

December 31, 2008 Securities Held-to-Maturity	Amortized Cost	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Estimated Fair Value
Obligations of States and Political Subdivisions	$ 10,294	$ 79	$	$ 10,373
U.S. Government Sponsored Entities Asset-Backed Securities	418,056	5,035	29	423,062
Total	$ 428,350	$ 5,114	$ 29	$ 433,435

Securities with unrealized losses at December 31, 2008, were as follows:

(In thousands)	Less than 12 months		12 months or longer		Total	
December 30, 2008 Securities Available-for-Sale	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
Obligations of states and political subdivisions	$ 1,135	$ 1	$ 278	$ 32	$ 1,413	$ 33
U.S. Government agencies asset-backed securities	703	6	6,850	223	7,553	229
Other equity securities	17	14	314	92	331	106
Total	$ 1,855	$ 21	$ 7,442	$ 347	$ 9,297	$ 368
December 30, 2008 Securities Held-to-Maturity						
U.S. Government agencies asset-backed securities	$ 156	$ 1	$ 42,863	$ 28	$ 43,019	$ 29

The amortized cost and estimated fair value of investments in debt securities at September 30, 2009, 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.

(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Securities Available-for-Sale		
U.S. Treasury and agencies notes:		
Due within one year	$ 189,899	$ 192,008
Due one through five years	150,000	150,527
Total	$ 339,899	$ 342,535
Obligations of states and political subdivisions:		
Due within one year	$ 13,829	$ 14,145
Due one through five years	5,632	5,946
Due five through ten years	810	841
Total	$ 20,271	$ 20,932
U.S. Government agencies asset-backed securities:		
Total	$ 932,961	$ 991,945

(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Securities Held-to-Maturity		
Obligations of state and political subdivisions:		
Due within one year	$ 4,932	$ 4,963
Due one through five years	145	152
Total	$ 5,077	$ 5,115
U.S. Government agencies asset-backed securities:		
Total	$ 442,985	$ 460,788

All of Park s U.S. Treasury and agencies notes are callable. Management estimates the average remaining life of Park s investment portfolio to be 2.5 years at September 30, 2009. If interest rates were to rise by 100 basis points, management expects the average remaining life would extend to approximately 4.3 years.

Note 10 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, 2009	December 31, 2008
Federal Home Loan Bank Stock	$ 62,043	$ 61,929
Federal Reserve Bank Stock	6,876	6,876
Total	$ 68,919	$ 68,805

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Note 11 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. Park made a pension plan contribution of $20.0 million in January 2009.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2009	2008	2009	2008
Service Cost	$ 953	$ 863	$ 2,859	$ 2,589
Interest Cost	858	789	2,574	2,367
Expected Return on Plan Assets	<1,090>	<1,152>	<3,269>	<3,456>
Amortization of Prior Service Cost	9	8	25	24
Recognized Net Actuarial Loss	510		1,532	
Benefit Expense	$ 1,240	$ 508	$ 3,721	$ 1,524

Note 12 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.

As of September 30, 2009, 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.

At September 30, 2009, the derivative s fair value of <$1.6> million was included in other liabilities. No hedge ineffectiveness on the cash flow hedge was recognized during the quarter. At September 30, 2009, the variable rate on the $25 million subordinated note was 2.28% (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).

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For the nine months ended September 30, 2009, the change in the fair value of the derivative designated as a cash flow hedge reported in other comprehensive income was $188 thousand (net of taxes of $102 thousand). Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company s variable-rate debt.

As of September 30, 2009, Park had mortgage loan rate lock commitments outstanding of approximately $19.8 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, 2009, the fair value of the derivatives was approximately $0.3 million. The fair value of the derivatives is included within loans held for sale and the corresponding income is included within other service 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.

Note 13 Loan Servicing

Park serviced sold mortgage loans of $1,504 million at September 30, 2009, compared to $1,369 million at December 31, 2008. At September 30, 2009, $55.7 million of the sold mortgage loans were sold with recourse compared to $65 million at December 31, 2008. Management closely monitors the delinquency rates on the mortgage loans sold with recourse. At September 30, 2009, 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, 2009	Nine Months Ended September 30, 2009
Mortgage Servicing Rights:		
Carrying Amount, Net, Beginning of Period	$ 9,928	$ 8,306
Additions	986	4,778
Amortization	<605>	<3,511>
Changes in Valuation Inputs & Assumptions	234	970
Carrying Amount, Net, End of Period	$ 10,543	$ 10,543
Valuation Allowance:		
Beginning of Period	$ <909>	$ <1,645>
Changes Due to Fair Value Adjustments	234	970
End of Period	$ <675>	$ <675>

Servicing fees included in other service income were $1.4 million for the three months ended September 30, 2009, and $4.2 million for the first nine months of 2009.

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Note 14 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 the entity 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 used 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, etc.

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 on a Recurring Basis :

The following table presents financial assets and liabilities measured on a recurring basis:

Fair Value Measurements at September 30, 2009 Using:
(In Thousands)

Description	Level 1	Level 2	Level 3	Balance at September 30, 2009
Assets				
Investment Securities				
Obligations of U.S. Treasury and Other U.S. Government Sponsored Entities	$	$ 342,535	$	$ 342,535
Obligations of States and Political Subdivisions		17,720	3,212	20,932
U.S. Government Sponsored Entities Asset-Backed Securities		991,945		991,945
Equity Securities	1,559			1,559
Mortgage Loans Held for Sale		12,176		12,176
Mortgage IRLCs		305		305
Liabilities				
Interest Rate Swap	$	$ <1,647>	$	$ <1,647>

Fair Value Measurements at December 31, 2008 Using:
(In Thousands)

Description	Level 1	Level 2	Level 3	Balance at December 31, 2008
Assets				
Investment Securities				
Obligations of U.S. Treasury and Other U.S. Government Sponsored Entities	$	$ 128,688	$	$ 128,688
Obligations of States and Political Subdivisions		24,189	2,705	26,894
U.S. Government Sponsored Entities Asset-Backed Securities		1,404,531		1,404,531
Equity Securities	1,783			1,783
Liabilities				
Interest Rate Swap	$	$ <1,937>	$	$ <1,937>

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 table below excludes Park s Federal Home Loan Bank stock and Federal Reserve Bank stock, which are carried at the redemption value, 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 swaps: The fair value of interest rate swaps represents the estimated amount Park would pay or receive to terminate the agreements, considering current interest rates and the current creditworthiness of the counterparties.

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 as of September 30, 2009 and at the lower of cost or fair value at December 31, 2008 (see Note 8 Mortgage Loans Held for Sale). On January 1, 2009, Park elected the fair value option of accounting for mortgage loans held for sale. Mortgage loans held for sale are estimated using security prices for similar product types, and therefore, are classified in Level 2.

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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, 2009 and 2008, for financial instruments measured on a recurring basis and classified as Level 3:

Level 3 Fair Value Measurements
Three months ended September 30, 2009 and 2008

(In Thousands)	Available for Sale Securities
Balance June 30, 2009	$ 2,798
Total Gains/(Losses)	
Included in Earnings	
Included in Other Comprehensive Income	414
Balance September 30, 2009	$ 3,212
Balance June 30, 2008	$ 2,841
Total Gains/(Losses)	
Included in Earnings	
Included in Other Comprehensive Income	<17>
Balance September 30, 2008	$ 2,824

Level 3 Fair Value Measurements
Nine months ended September 30, 2009 and 2008

(In Thousands)	Available for Sale Securities
Balance December 31, 2008	$ 2,705
Total Gains/(Losses)	
Included in Earnings	
Included in Other Comprehensive Income	507
Balance September 30, 2009	$ 3,212
Balance December 31, 2007	$ 2,969
Total Gains/(Losses)	
Included in Earnings	
Included in Other Comprehensive Income	<145>
Balance September 30, 2008	$ 2,824

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Assets and Liabilities Measured on a Nonrecurring Basis:
The following table presents financial assets and liabilities measured on a nonrecurring basis:

Fair Value Measurements at September 30, 2009 Using
(In Thousands)

Description	(Level 1)	(Level 2)	(Level 3)	Balance at September 30, 2009
SFAS No. 114 Impaired Loans	$	$	$ 87,358	$ 87,358
Mortgage Servicing Rights		10,543		10,543
Other Real Estate Owned			47,015	47,015

Fair Value Measurements at December 31, 2008 Using
(In Thousands)

Description	(Level 1)	(Level 2)	(Level 3)	Balance at December 31, 2008
SFAS No. 114 Impaired Loans	$	$	$ 75,942	$ 75,942
Mortgage Servicing Rights		8,306		8,306
Other Real Estate Owned			25,848	25,848

Impaired loans, which are usually measured for impairment using the fair value of collateral, had a carrying amount of $179.5 million at September 30, 2009, after a partial charge-off of $31.9 million. In addition, these loans have a specific valuation allowance of $21.1 million. Of the $179.5 million impaired loan portfolio, $87.4 million were carried at fair value, as a result of the aforementioned charge-offs and specific valuation allowance. The remaining $92.1 million of impaired loans are carried at cost, as the fair value of collateral on these loans exceeds the book value for each individual credit. At December 31, 2008, impaired loans had a carrying amount of $142.9 million. Of these, $75.9 million were carried at fair value, as a result of partial charge-offs of $30.0 million and a specific valuation allowance of $8.9 million. The financial impact of changes in the specific valuation allowance for the three and nine month periods ended September 30, 2009 was $7.6 million and $12.2 million, respectively.

MSRs, which are carried at lower of cost or fair value, were recorded at a fair value of $10.5 million, including a valuation allowance of $0.7 million, at September 30, 2009. MSRs do not trade in active, open markets with readily observable prices. For example, sales of MSRs do occur, but precise terms and conditions typically are not readily available. Accordingly, MSRs are classified Level 2. At December 31, 2008, MSRs were recorded at a fair value of $8.3 million, including a valuation allowance of $1.6 million.

Other real estate owned (OREO) is recorded at fair value based on property appraisals, less estimated selling costs, at the date of transfer. The carrying value of OREO is not re-measured to fair value on a recurring basis, but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs. At September 30, 2009 and December 31, 2008, the estimated fair value of OREO, less estimated selling costs amounted to $47.0 million and $25.8 million, respectively. The financial impact of OREO valuation adjustments for the three and nine months ended September 30, 2009 was $1.1 million and $1.7 million, respectively.

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The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for assets and liabilities not discussed above:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets fair values.

Interest bearing deposits with other banks: The carrying amounts reported in the balance sheet for interest bearing deposits with other banks approximate those assets fair values.

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for certain mortgage loans (e.g., one-to-four family residential) are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. The fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Off-balance sheet instruments: Fair values for the Corporation s loan commitments and standby letters of credit are based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing. The carrying amount and fair value are not material.

Deposit liabilities: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts for variable-rate, fixed-term certificates of deposit approximate their fair values at the reporting date. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities of time deposits.

Short-term borrowings: The carrying amounts of federal funds purchased, borrowings under repurchase agreements and other short-term borrowings approximate their fair values.

Long-term debt: Fair values for long-term debt are estimated using a discounted cash flow calculation that applies interest rates currently being offered on long-term debt to a schedule of monthly maturities.

Subordinated debt: Fair values for subordinated debt are estimated using a discounted cash flow calculation that applies interest rate spreads currently being offered on similar debt structures to a schedule of monthly maturities.

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The fair value of financial instruments at September 30, 2009 and December 31, 2008, is as follows:

	September 30, 2009		December 31, 2008	
(In Thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and Money Market Instruments	$ 137,662	$ 137,662	$ 171,261	$ 171,261
Interest Bearing Deposits with Other Banks	1	1	1	1
Investment Securities	1,873,952	1,891,795	2,059,051	2,064,136
Mortgage Loans Held for Sale	12,176	12,176	9,603	9,603
Impaired Loans Carried at Fair Value	87,358	87,358	75,942	75,942
Other Loans	4,405,527	4,410,380	4,301,881	4,321,006
Loans Receivable, Net	$ 4,505,061	$ 4,509,914	$ 4,387,426	$ 4,406,551
Financial Liabilities:				
Noninterest Bearing Checking	$ 817,897	$ 817,897	$ 782,625	$ 782,625
Interest Bearing Transactions Accounts	1,191,220	1,191,220	1,204,530	1,204,530
Savings	827,310	827,310	694,721	694,721
Time Deposits	2,272,143	2,280,459	2,078,372	2,084,732
Other	6,406	6,406	1,502	1,502
Total Deposits	$ 5,114,976	$ 5,123,292	$ 4,761,750	$ 4,768,110
Short-Term Borrowings	$ 345,167	$ 345,167	$ 659,196	$ 659,196
Long-Term Debt	681,590	739,927	855,558	939,210
Subordinated Debentures	40,000	33,225	40,000	30,855
Derivative Financial Instruments:				
Interest Rate Swap	$ <1,647>	$ <1,647>	$ <1,937>	$ <1,937>

Note 15 Participation in the U.S. Treasury Capital Purchase Program (CPP)

On December 23, 2008, Park issued $100 million of cumulative perpetual preferred shares, with a liquidation preference of $1,000 per share (the Senior Preferred Shares). The Senior Preferred Shares constitute Tier 1 capital and rank senior to Park s common shares. The Senior Preferred Shares pay cumulative dividends at a rate of 5% per annum through February 14, 2014 and will reset to a rate of 9% per annum thereafter. For the three and nine month periods ended September 30, 2009, Park recognized a charge to retained earnings of $1.4 million and $4.3 million, respectively, representing the preferred stock dividend and accretion of the discount on the preferred stock, associated with its participation in the CPP.

As part of its participation in the CPP, Park also issued a warrant to the U.S. Treasury to purchase 227,376 common shares having an exercise price of $65.97, which is equal to 15% of the aggregate amount of the Senior Preferred Shares purchased by the U.S. Treasury. The initial exercise price for the warrant and the market price for determining the number of common shares subject to the warrant were determined by reference to the market price of the common shares on the date the Company s application for participation in the Capital Purchase Program was approved by the United States Department of the Treasury (calculated on a 20-day trailing average). The warrant has a term of 10 years.

A company that participates in the CPP must adopt certain standards for compensation and corporate governance, established under the American Recovery and Reinvestment Act of 2009 (the ARRA), which amended and replaced the executive compensation provisions of the Emergency Economic Stabilization Act of 2008 (EESA) in their entirety, and the Interim Final Rule promulgated by the Secretary of the U.S. Treasury under 31 C.F.R. Part 30 (collectively, the Troubled Asset Relief Program (TARP) Compensation Standards). In addition, Park s ability to declare or pay dividends on or repurchase its common shares is partially restricted as a result of its participation in the CPP.

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Note 16 Sale of Common Shares

On May 27, 2009, Park announced that it had entered into a distribution agreement with the investment banking firm of Sandler O Neill & Partners, L.P. (Sandler O Neill). Under this distribution agreement, Park can offer and sell common shares having an aggregate sales proceeds of up to $70 million from time to time through Sandler O Neill as sales agent, provided that the aggregate number of common shares offered and sold under offerings conducted pursuant to this distribution agreement shall not exceed 1,050,000 common shares. In accordance with the distribution agreement, sales of common shares can be made by means of ordinary brokers transactions on NYSE Amex at market prices, in block transactions or as otherwise agreed with Sandler O Neill. For the three months ended September 30, 2009, Park sold 105,072 common shares at a weighted average price of $60.22, with sales proceeds of $6.3 million. Net proceeds for the common shares sold in the third quarter were $6.2 million, net of selling expenses of $0.1 million. Through September 30, 2009, Park sold 288,272 common shares at a weighted average sales price of $60.83 with sales proceeds of $17.5 million. Net of selling and due diligence expenses, Park raised $16.7 million in additional equity. At September 30, 2009, Park had the capability under the distribution agreement to sell additional common shares having aggregate sales proceeds of up to $52.5 million provided that the aggregate number of additional common shares sold does not exceed 761,728.

Note 17 Other Comprehensive Income (Loss)

Other comprehensive income (loss) components and related taxes are shown in the following table for the three months ended September 30, 2009 and 2008.

Three months ended September 30 (In Thousands)	Before-tax amount	Tax expense	Net-of-tax amount
2009:			
Unrealized gains on available-for-sale securities	$ 17,773	$ 6,219	$ 11,554
Unrealized net holding loss on cash flow hedge	<227>	<79>	<148>
Other comprehensive income	$ 17,546	$ 6,140	$ 11,406
2008:			
Unrealized gains on available-for-sale securities	$ 4,949	$ 1,732	$ 3,217
Unrealized net holding loss on cash flow hedge	<162>	<57>	<105>
Other comprehensive income	$ 4,787	$ 1,675	$ 3,112

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The ending balance of each component of accumulated other comprehensive income (loss) is as follows:

(In Thousands)	Before-tax amount	Tax expense	Net-of-tax amount
September 30, 2009:			
Application of SFAS No. 158	$ <30,435>	$ <10,652>	$ <19,783>
Unrealized gains on available-for-sale securities	62,880	22,008	40,872
Unrealized net holding loss on cash flow hedge	<1,648>	<577>	<1,071>
Total accumulated other comprehensive income	$ 30,797	$ 10,779	$ 20,018
December 31, 2008:			
Application of SFAS No. 158	$ <30,435>	$ <10,652>	$ <19,783>
Unrealized gains on available-for-sale securities	48,674	17,036	31,638
Unrealized net holding loss on cash flow hedge	<1,937>	<678>	<1,259>
Total accumulated other comprehensive income	$ 16,302	$ 5,706	$ 10,596
September 30, 2008:			
Application of SFAS No. 158	$ <5,477>	$ <1,917>	$ <3,560>
Unrealized losses on available-for-sale securities	<1,212>	<424>	<788>
Unrealized net holding loss on cash flow hedge	<65>	<23>	<42>
Total accumulated other comprehensive loss	$ <6,754>	$ <2,364>	$ <4,390>

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ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s discussion and analysis contains forward-looking statements that are provided to assist in the understanding of anticipated future financial performance. Forward-looking statements provide current expectations or forecasts of future events and are not guarantees of future performance. The forward-looking statements are based on management s expectations and are subject to a number of risks and uncertainties. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements. Risks and uncertainties that could cause actual results to differ materially include, without limitation: deterioration in the asset value of Park s loan portfolio may be worse than expected; Park s ability to execute its business plan successfully and within the expected timeframe; general economic and financial market conditions, and weakening in the economy, specifically, the real estate market and credit market, either national or in the states in which Park and its subsidiaries do business, may be worse than expected which could decrease the demand for loan, deposit and other financial services and increase loan delinquencies and defaults; changes in market rates and prices may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our consolidated balance sheet; changes in consumer spending, borrowing and saving habits; changes in unemployment; asset/liability repricing risks and liquidity risks; our liquidity requirements could be adversely affected by changes in our assets and liabilities; competitive factors among financial institutions increase significantly, including product and pricing pressures and our ability to attract, develop and retain qualified bank professionals; the nature, timing and effect of changes in banking regulations or other regulatory or legislative requirements affecting the respective businesses of Park and its subsidiaries, including changes in laws concerning taxes, banking, securities and other aspects of the financial services industry; the effect of fiscal and governmental policies of the United States federal government; demand for loans in the respective market areas served by Park and its subsidiaries, and other risk factors relating to the banking industry as detailed from time to time in Park s reports filed with the Securities and Exchange Commission including those described in Item 1A. Risk Factors of Part I of Park s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and in Item 1A. Risk Factors of Part II of this Quarterly Report on Form 10-Q. Undue reliance should not be placed on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Park does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions that may be made to update any forward-looking statement to reflect the events or circumstances after the date on which the forward-looking statement is made, or reflect the occurrence of unanticipated events, except to the extent required by law.

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Critical Accounting Policies

Note 1 of the Notes to Consolidated Financial Statements included in Park s 2008 Annual Report to Shareholders lists significant accounting policies used in the development and presentation of Park s consolidated financial statements. The accounting and reporting policies of Park conform with U.S. generally accepted accounting principles and general practices within the financial services industry. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Park considers that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than its other significant accounting policies. The allowance for loan losses is calculated with the objective of maintaining a reserve level believed by management to be sufficient to absorb probable incurred credit losses in the loan portfolio. Management s determination of the adequacy of the allowance for loan losses is based on periodic evaluations of the loan portfolio and of current economic conditions. However, this evaluation is inherently subjective as it requires material estimates, including the amounts and timing of expected future cash flows on impaired loans and estimated losses on consumer loans and residential mortgage loans based on historical loss experience and the current economic conditions. All of those factors may be susceptible to significant change. To the extent that actual results differ from management estimates, additional loan loss provisions may be required that would adversely impact earnings for future periods.

Management s assessment of the adequacy of the allowance for loan losses considers individual impaired loans, pools of unimpaired commercial loans, and pools of homogeneous loans with similar risk characteristics and other environmental risk factors. This assessment is updated on a quarterly basis. The allowance established for impaired commercial loans reflects expected losses resulting from analyses performed on each individual impaired commercial loan. The specific credit allocations are based on regular analyses of commercial, commercial real estate and construction loans where we have determined the loan to be impaired. These analyses involve a high degree of judgment in estimating the amount of loss associated with these impaired commercial loans.

Pools of unimpaired commercial loans and pools of homogeneous loans with similar risk characteristics are also assessed for probable losses. A loss migration analysis is performed on certain commercial, commercial real estate and construction loans. These are loans above a fixed dollar amount that are assigned an internal credit rating. Generally, residential real estate loans and consumer loans are not individually graded. The amount of loan loss reserve assigned to these loans is dependent on historical loss experience and the current economic environment. Management also evaluates the impact of environmental factors which pose additional risks. Such environmental factors include: national and local economic trends and conditions; experience, ability, and depth of lending management and staff; effects of any changes in lending policies and procedures; levels of, and trends in, consumer bankruptcies, delinquencies, impaired loans and charge-offs and recoveries. The determination of this component of the allowance for loan losses requires considerable management judgment.

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Generally accepted accounting principles (GAAP) requires management to establish a fair value hierarchy, which has the objective of maximizing the use of observable market inputs. GAAP also requires enhanced disclosures regarding the inputs used to calculate fair value. These are classified as Level 1, 2, and 3. Level 3 inputs are largely unobservable inputs that reflect a company s own assumptions about the market for a particular instrument. Some of these inputs could be based on internal models and cash flow analysis. At September 30, 2009, the carrying amount of assets based on Level 3 inputs for Park were approximately $137.6 million. This was 9.1% of the total amount of assets measured at fair value as of the end of the third quarter. The fair value of impaired loans was approximately $87.4 million (or 63%) of the total amount of Level 3 inputs. The large majority of Park s Level 2 inputs consist of available-for-sale (AFS) securities. The fair value of these AFS securities is obtained largely by the use of matrix pricing, which is a mathematical technique widely used in the financial services industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities.

Management believes that the accounting for goodwill and other intangible assets also involves a higher degree of judgment than most other significant accounting policies. Goodwill arising from business combinations represents the value attributable to unidentifiable intangible assets in the business acquired. Park s goodwill relates to the value inherent in the banking industry and that value is dependent upon the ability of Park s Ohio-based bank to provide quality, cost-effective banking services in a competitive marketplace. The goodwill value is supported by revenue that is in part driven by the volume of business transacted. A decrease in earnings resulting from a decline in the customer base, the inability to deliver cost-effective services over sustained periods or significant credit problems can lead to impairment of goodwill that could adversely impact earnings in future periods. GAAP requires an annual evaluation of goodwill for impairment, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The fair value of the goodwill, which resides on the books of Park s Ohio-based bank, is estimated by reviewing the past and projected operating results for the Park Ohio-based bank and the banking industry comparable information.

At September 30, 2009, on a consolidated basis, Park had core deposit intangibles of $10.4 million subject to amortization and $72.3 million of goodwill, which was not subject to periodic amortization, and recorded at The Park National Bank. At September 30, 2009, the core deposit intangible asset recorded on the balance sheet of The Park National Bank was $3.2 million and the core deposit intangible asset at Vision Bank was $7.2 million. During the first quarter of 2009, Park s management evaluated the goodwill for Park s Ohio-based bank for impairment and concluded that the fair value of the goodwill for Park s Ohio-based bank exceeded the carrying value of $72.3 million and accordingly was not impaired. Please see Note 3 Goodwill and Intangible Assets of the Notes to Unaudited Consolidated Condensed Financial Statements in this Quarterly Report on Form 10-Q for additional information on intangible assets.

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Comparison of Results of Operations
For the Three and Nine Months Ended September 30, 2009 and 2008

Summary Discussion of Results

Net income for the nine months ended September 30, 2009 was $61.9 million compared to $2.8 million for the same period in 2008, an increase of $59.1 million. The primary reason for the large increase in net income was the net loss of $70.2 million at Vision Bank for the first three quarters of 2008 compared to a net loss of $17.1 million at Vision Bank for the first nine months of 2009. During the third quarter of 2008, Vision Bank recognized a goodwill impairment charge of $55.0 million which reduced the goodwill asset to zero at Vision Bank.

Excluding the $55.0 million goodwill impairment charge in 2008, net income for the first nine months of 2009 increased by $4.2 million or 7.2% to $61.9 million, compared to $57.7 million for the first nine months of 2008.

Net income for the three months ended September 30, 2009 was $19.2 million compared to a net loss of $38.4 million for the third quarter of 2008, an increase of $57.6 million. Vision Bank had a net loss of $61.7 million for the third quarter of 2008 compared to a net loss of $6.6 million for the third quarter of 2009. The large improvement in net income for the third quarter of 2009 compared to the third quarter of 2008 was due to the $55.0 million goodwill impairment charge recognized by Vision Bank in the third quarter of 2008.

Excluding the $55.0 million goodwill impairment charge in the third quarter of 2008, net income for the three months ended September 30, 2009 increased by $2.6 million or 15.8% to $19.2 million, compared to $16.6 million for the third quarter of 2008.

The following tables compare the components of net income for the three and nine month periods ended September 30, 2009 with the components of net income for the three and nine month periods ended September 30, 2008. This information is provided for Park, Vision Bank and Park excluding Vision Bank. In general for 2009, the operating results for Park s Ohio-based banking divisions have been better than management projected, but the credit losses at Vision Bank have been worse than expected. (Please note that some of the percentage changes in the following tables are not meaningful and accordingly we have shown them as N.M.)

Park Summary Income Statement
(In Thousands)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2009	2008	% Change	2009	2008	% Change
Net Interest Income	$ 68,462	$ 65,228	5.0%	$ 204,689	$ 191,038	7.2%
Provision for Loan Losses	14,958	15,906	<6.0%>	43,101	37,869	13.8%
Other Income	18,165	17,088	6.3%	57,132	56,670	.8%
Gain on Sale of Securities				7,340	896	N.M.
Goodwill Impairment Charge		54,986	<100.0%>		54,986	<100.0%>
Other Expense	46,052	44,493	3.5%	142,065	132,203	7.5%
Income (Loss) Before Taxes	$ 25,617	$ <33,069>	N.M.	$ 83,995	$ 23,546	N.M.
Income Taxes	6,418	5,343	20.1%	22,099	20,789	6.3%
Net Income (Loss)	$ 19,199	$ <38,412>	N.M.	$ 61,896	$ 2,757	N.M.

Park s income statements for the first nine months of 2009 and 2008 include some special transactions that are discussed below.

During the second quarter of 2009, Park sold $197 million of U.S. Government Agency mortgage-backed securities for a gain of $7.3 million. Also during the second quarter, Park accrued $3.3 million of expense for the special assessment by the FDIC, which was charged to all depository institutions insured by the FDIC.

For the nine months ended September 30, 2008, other income included $3.1 million of income that was recognized by Park s Ohio-based banking divisions as a result of the initial public stock offering by Visa.

For the three and nine months ended September 30, 2008, a goodwill impairment charge at Vision Bank reduced income before taxes and net income by $55.0 million.

Vision Bank Summary Income Statement
(In Thousands)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Percent Change	Nine Month Ended September 30, 2009	Nine Month Ended September 30, 2008	Percent Change
Net Interest Income	$ 6,017	$ 6,928	<13.1%>	$ 19,307	$ 20,609	<6.3%>
Provision for Loan Losses	10,030	11,474	<12.6%>	28,430	27,729	2.5%
Other Income	263	48	447.9%	2,060	1,934	6.5%
Gain on Sale of Securities					238	<100.0%>
Goodwill Impairment Charge		54,986	<100.0%>		54,986	<100.0%>
Other Expense	6,926	6,383	8.5%	20,838	19,821	5.1%
Loss Before Taxes	$ <10,676>	$ <65,867>	N.M.	$ <27,901>	$ <79,755>	N.M.
Income Taxes	<4,106>	<4,185>	1.9%	<10,756>	<9,539>	<12.8%>
Net Loss	$ <6,570>	$ <61,682>	N.M.	$ <17,145>	$ <70,216>	N.M.

Vision Bank has continued to have significant credit problems in 2009. Net loan charge-offs for the third quarter of 2009 were $5.1 million or an annualized 2.96% of average loans and for the first nine months of 2009, net loan charge-offs were $19.1 million or 3.68% of average loans. The large decrease in net interest income for Vision Bank of 13.1% for the third quarter of 2009 compared to 2008 was primarily due to an increase in nonaccrual loans. At September 30, 2009, nonaccrual loans at Vision Bank were $124.5 million, compared to $91.2 million at December 31, 2008 and $76.5 million at September 30, 2008. Generally, no interest income is recognized on nonaccrual loans at Vision Bank.

Park Excluding Vision Bank Summary Income Statement
(In Thousands)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Percent Change	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Percent Change
Net Interest Income	$ 62,445	$ 58,300	7.1%	$ 185,382	$ 170,429	8.8%
Provision for Loan Losses	4,928	4,432	11.2%	14,671	10,140	44.7%
Other Income	17,902	17,040	5.1%	55,072	54,736	.6%
Gain on Sale of Securities				7,340	658	N.M.
Other Expense	39,126	38,110	2.7%	121,227	112,382	7.9%

Income Before Taxes	$ 36,293	$ 32,798	10.7%	$ 111,896	$ 103,301	8.3%
Income Taxes	10,524	9,528	10.5%	32,855	30,328	8.3%
Net Income	$ 25,769	$ 23,270	10.7%	$ 79,041	$ 72,973	8.3%

As mentioned previously, the income statements for the first nine months of 2009 and 2008 include some special transactions.

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The entire gain from the sale of securities of $7.3 million during the second quarter of 2009 was recognized at Park s Ohio-based banking divisions. Also during the second quarter, Park s Ohio-based banking divisions accrued $2.9 million of expense for the special assessment by the FDIC.

Other income for the nine months ended September 30, 2008, includes $3.1 million that was recognized as a result of the initial public stock offering by Visa.

Overall, Park s management was pleased with the strong performance in net interest income for the first nine months of 2009 by Park s Ohio-based banking divisions.

Net Interest Income Comparison for the Third Quarter of 2009 and 2008

Net interest income (the difference between total interest income and total interest expense) is Park s principal source of earnings, making up approximately 79.0% of total revenue for the third quarter of 2009 and 79.2% of total revenue for the third quarter of 2008. Net interest income increased by $3.3 million or 5.0% to $68.5 million for the third quarter of 2009 compared to $65.2 million for the third quarter of 2008.

The following table compares the average balance sheet and tax equivalent yield on interest earning assets and the average balance and cost of interest bearing liabilities for the third quarter of 2009 with the same quarter in 2008.

	Three Months Ended September 30,			
	2009		2008	
(In Thousands)	Average Balance	Tax Equivalent %	Average Balance	Tax Equivalent %
Loans (1)	$ 4,610,716	5.99%	$ 4,409,188	6.80%
Taxable Investments	1,807,147	4.87%	1,782,413	4.96%
Tax Exempt Investments	26,759	7.28%	42,312	6.64%
Money Market Instruments	31,661	.10%	17,970	1.93%
Interest Earning Assets	$ 6,476,283	5.66%	$ 6,251,883	6.25%
Interest Bearing Deposits	$ 4,315,622	1.48%	$ 3,873,958	2.17%
Short-Term Borrowings	336,611	.81%	610,617	2.13%
Long-Term Debt	721,693	3.62%	904,289	3.68%
Interest Bearing Liabilities	$ 5,373,926	1.73%	$ 5,388,864	2.42%
Excess Interest Earning Assets	$ 1,102,357		$ 863,019	
Net Interest Spread		3.93%		3.83%
Net Interest Margin		4.22%		4.17%

(1) For purposes of the computation, nonaccrual loans are included in the average balance.

Average interest earning assets for the third quarter of 2009 increased by $224 million or 3.6% to $6,476 million compared to $6,252 million for the third quarter of 2008. The average yield on interest earning assets decreased by 59 basis points to 5.66% for the third quarter of 2009 compared to 6.25% for the third quarter of 2008.

Average interest bearing liabilities for the third quarter of 2009 decreased by $15 million or .3% to $5,374 million compared to $5,389 million for the third quarter of 2008. The average cost of interest bearing liabilities decreased by 69 basis points to 1.73% for the third quarter of 2009 compared to 2.42% for the third quarter of 2008.

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Interest Rates

During 2008, the Federal Open Market Committee (FOMC) of the Federal Reserve aggressively lowered the targeted federal funds rate from 4.25% at the beginning of the year to a range of 0% to .25% in December 2008.

The average federal funds rate was .16% for the third quarter of 2009 and .17% for the first nine months of 2009. The average federal funds rate was 1.94% for the third quarter of 2008 and 2.40% for the first nine months of 2008.

The sharp reduction in the targeted federal funds rate in 2008 was in response to weakness in the U.S. economy. The annualized change in the U.S. gross domestic product (GDP) in 2008 was a negative .7% in the first quarter, a positive 1.5% in the second quarter, a negative 2.7% in the third quarter and a negative 5.4% in the fourth quarter. Economic conditions have continued to be weak in the U.S. economy in 2009. The annualized change in GDP for the first quarter of 2009 was a negative 6.4% and a negative .7% for the second quarter of 2009. Recent economic indicators forecast that the U.S. economy will have positive GDP growth in the third quarter of 2009 and probably for the fourth quarter of 2009. If economic conditions would continue to improve, the FOMC would likely begin raising the targeted federal funds rate. Park s management expects that the targeted federal funds rate will be 0% to .25% for the fourth quarter of 2009 and the first quarter of 2010.

Discussion of Loans, Investments, Deposits and Borrowings

Average loan balances increased by $202 million or 4.6% to $4,611 million for the three months ended September 30, 2009, compared to $4,409 million for the same period in 2008. The average yield on the loan portfolio decreased by 81 basis points to 5.99% for the third quarter of 2009 compared to 6.80% for the third quarter of 2008.

The average prime lending rate decreased by 175 basis points to 3.25% for the third quarter of 2009 compared to 5.00% for the third quarter of 2008. Management has negotiated floor interest rates on many commercial and commercial real estate loans which has prevented the yield on the loan portfolio from decreasing as much as the decrease in the prime lending rate. Management expects that the yield on the loan portfolio will be approximately 5.88% for the fourth quarter of 2009.

Loans outstanding decreased by $5 million during the third quarter of 2009, but have increased by $124 million during the first nine months of 2009 to $4,615 million at September 30, 2009. The annualized growth rate for loans was 3.7% for the first nine months of 2009. The decrease in loans outstanding during the third quarter of 2009 was due to a decline in mortgage loans held for sale. The balance of mortgage loans held for sale was $12 million at September 30, 2009, compared to $39 million at June 30, 2009 and $10 million at December 31, 2008. Management expects a small increase (2% to 3% annualized growth) in loans during the fourth quarter of 2009.

The average balance of taxable investment securities increased by $25 million or 1.4% to $1,807 million for the third quarter of 2009 compared to $1,782 million for the third quarter of 2008. The average yield on the taxable investment securities was 4.87% for the third quarter of 2009 compared to 4.96% for the third quarter of 2008.

The average balance of tax exempt investment securities decreased by $15 million or 36.8% to $27 million for the third quarter of 2009 compared to $42 million for the third quarter of 2008. The tax equivalent yield on tax exempt investment securities was 7.28% for the third quarter of 2009, compared to 6.64% for the third quarter of 2008.

At September 30, 2009, total investment securities (on an amortized cost basis) were $1,811 million compared to $1,869 million at June 30, 2009 and $2,010 million at December 31, 2008.

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During the second quarter of 2009, management sold U.S. Government Agency mortgage-backed securities with a book value of $197 million for a gain of $7.3 million. These securities had a book yield of 4.70% and a weighted average remaining life of about 3 years. These securities were sold at a price of approximately 103.2% of par for a give-up yield of 3.33%. Additionally, management purchased $250 million of U.S. Government Agency callable notes during the second quarter at a yield of 4.55%. These callable notes have final maturities in 9 to 10 years and have call dates from 1 to 3 years.

At September 30, 2009, the market value of the securities classified as available for sale exceeded the amortized cost by $63 million or 4.9%. However, Park s management does not have any present plans to sell securities in the fourth quarter. It is possible that this strategy could change as market conditions change.

Average interest bearing deposit account balances increased by $442 million or 11.4% to $4,316 million for the third quarter of 2009 compared to $3,874 million for the third quarter of 2008. The average interest rate paid on interest bearing deposits decreased by 69 basis points to 1.48% for the third quarter of 2009 compared to 2.17% for the third quarter of 2008.

The large increase in interest bearing deposits of $442 million was partially due to an increase in deposits obtained through the use of brokers and an increase in CDARS. The average balance of brokered deposits was $94 million for the third quarter of 2009 and $34 million for the third quarter of 2008. The average balance of CDARS was $348 million for the third quarter of 2009 and $93 million for the third quarter of 2008.

Average total borrowings were $1,058 million for the three months ended September 30, 2009 compared to $1,515 million for the same period in 2008, a decrease of 30.1%. The average interest rate paid on total borrowings was 2.73% for the third quarter of 2009 compared to 3.05% for the third quarter of 2008.

The net interest spread (the difference between the tax equivalent yield on interest earning assets and the tax equivalent cost of interest bearing liabilities) increased by 10 basis points to 3.93% for the three months ended September 30, 2009 compared to 3.83% for the third quarter of 2008. The net interest margin (the annualized tax equivalent net interest income divided by average interest earning assets) was 4.22% for the third quarter of 2009 compared to 4.17% for the same quarter in 2008.

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