



COMPANY UPDATE/ ESTIMATES CHANGE

Key Metrics

PRK - NASDAQ (as of 07/24/17)	\$102.20
Price Target	NA
52-Week Range	\$87.60-\$122.88
Shares Outstanding (mm)	15.3
Market Cap. (\$mm)	\$1,563
3-Mo. Average Daily Volume (000)	28.8
Institutional Ownership	42.9%
Tangible Equity / Tangible Assets	9.5%
ROE	11.7%
Tangible Book Value Per Share	\$44.45
Price/Tangible Book Value	229.9%
Dividend Yield	3.7%
Price/LTM Earnings	18.2x

Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$1.21	\$1.31A	\$1.31A	\$1.59	\$1.55
2Q	\$1.30	\$1.43	\$1.24A	\$1.68	\$1.64
3Q	\$1.78	\$1.50	\$1.47	\$1.74	\$1.70
4Q	\$1.53	\$1.50	\$1.47	\$1.70	\$1.67
Year	\$5.83	\$5.75	\$5.49	\$6.71	\$6.56
P/E	17.5x		18.6x		15.6x

Common Dividends

	2016A	Curr. 2017E	Prior % chg.	Curr. 2018E
1Q	\$0.94	\$0.94A	0.0	\$0.94
2Q	\$0.94	\$0.94A	0.0	\$0.94
3Q	\$0.94	\$0.94	0.0	\$0.94
4Q	\$0.94	\$0.94	0.0	\$0.94
Year	\$3.76	\$3.76	0.0	\$3.76

Company Description – Park National Corporation (PRK) is a commercial banking organization headquartered in Newark, Ohio. The company's footprint encompasses central and southwestern Ohio. In addition to traditional depository and lending services, Park National is involved in trust services, wealth management, indirect automobile lending and aircraft leasing.

Park National Corporation

PRK – NASDAQ – Neutral – 2

Reports Rare Credit Hiccup; Reaffirming Neutral Rating

- **Earnings Results:** PRK reported 2Q17 GAAP and operating EPS of \$1.24, which was \$0.19 and \$0.17 below our estimate and the Street consensus, respectively. The primary drivers of the lower than expected results were unfavorable variances in the loan loss provision and noninterest expense.
- **Positive Highlights:** Net interest income increased 1.4% linked-quarter (LQ) to \$59.8 million as a 2.6% rise in average earning assets and an extra day in the quarter more than offset seven bps of net interest margin (NIM) compression to 3.42%. We had modeled net interest income of \$59.9 million and a 3.49% margin.

Noninterest income surged 10.0% LQ to \$19.3 million. The primary drivers of the sequential advance were improvements in income from fiduciary activities (9.3%), “other” service income (22.9%) and “miscellaneous” income (82.7%). We had modeled noninterest income of \$19.4 million.

End-of-period loans rose 1.0% linked-quarter (LQ) to \$5.37 billion, which was in line with our estimate.

- **Negative Highlights:** The provision for loan losses rose \$3.7 million LQ to \$4.6 million. The net charge-off ratio declined seven bps to 0.05%, while Nonperforming Assets/Assets increased seven bps to 1.34%. We had modeled a provision of \$2.1 million.

Operating noninterest expense rose 1.4% LQ to \$48.1 million predominately on a 24.6% increase in professional fees. We had projected noninterest expense of \$46.5 million.

- **Estimates:** We are revising our 2017 and 2018 operating EPS estimates to \$5.49 and \$6.56 from \$5.75 and \$6.71, respectively. We reaffirm our Neutral rating.

Note Important Disclosures on pages 4 and 5
Note Analyst Certification on page 4

OTHER KEY TAKEAWAYS

- The LQ increase in the provision was largely due to the establishment of a reserve on one sizable commercial credit. Management considers this to be an isolated event and noted that asset quality otherwise remains strong.
- The NIM compression was attributable to an uptick in deposit costs and excess liquidity. The company is maintaining excess liquidity to fund the 2H17 maturities of approximately \$400 million in Federal Home Loan Bank (FHLB).
- The cost of interest bearing deposits rose eight bps to 0.44% on a LQ basis. The increase was driven by increased pricing to retain certain key municipal relationships. The company has not adjusted pricing on retail deposits.
- Management indicated that the loan pipeline remains stable and is supportive of 3%-5% annual growth.
- Major model assumptions include a Fed rate hike in December followed by two additional hikes in 2018, continued flattening of the yield curve and a 28% corporate tax rate in 2018. Given the considerable uncertainties regarding corporate tax reform, we are employing conservative hurdle rates in establishing our ratings.

SUITABILITY

Our suitability rating on PRK is 2 on our scale of 1 to 4 (1 = most conservative, 4 = most aggressive). Factors contributing to our suitability rating include the company's market capitalization, liquidity and trading volume, diversity of revenues and the geographic diversification of its footprint.

RISK FACTORS

- **Economy** – If the economy softens, loan demand could wane and credit quality could deteriorate.
- **Geography** – The company's operations are clustered in one state. Accordingly, its earnings are more vulnerable to any regional shock and/or slowdown.
- **Real Estate** – A significant percentage of the company's loans are real estate oriented. Any deterioration in real estate values would impair the value of the underlying real estate collateral.
- **Competition** – The industry is highly competitive and many of the company's competitors have greater resources.
- **Sector Rotation** – The share price of the company's common stock may be vulnerable to any sector rotation that might occur.
- **Regulatory Environment** – Banks operate in a highly regulated environment. Consequently, the company is vulnerable to regulatory uncertainties that could negatively impact shareholders.
- **Other** – Please see the company's financial statements for a further discussion of risks and considerations.

	PARK NATIONAL CORPORATION										PRK: NEUTRAL			
	1Q016 A	2Q016 A	3Q016 A	4Q016 A	1Q017 A	2Q017 A	3Q017 E	4Q017 E	FY 2015 E	FY 2016 A	FY 2017 E	FY 2018 E	FY 2017 E	FY 2018 E
Balance Sheet Data:														
Assets	7,428.2	7,431.6	7,364.1	7,467.6	7,744.7	7,832.1	7,908.4	7,785.5	7,311.4	7,467.6	7,785.5	8,093.6	2.1%	4.0%
Gross Loans	5,062.2	5,127.6	5,187.0	5,271.9	5,313.6	5,365.4	5,417.7	5,470.5	5,068.1	5,271.9	5,470.5	5,682.3	4.0%	3.9%
Average Earning Assets	6,828.9	6,816.4	6,918.4	6,824.3	6,963.5	7,146.7	7,249.3	7,227.9	6,738.7	6,847.2	7,146.8	7,312.3	1.6%	2.3%
Deposits	5,606.8	5,623.9	5,519.7	5,522.0	5,920.6	5,961.6	5,669.7	5,525.0	5,347.6	5,525.0	5,743.5	5,743.5	3.3%	4.0%
Equity	729.7	739.9	751.1	742.2	744.1	752.2	759.0	765.6	713.4	742.2	765.6	802.3	4.0%	4.8%
Statement of Operations:														
FTE Net Interest Income	60.3	58.0	59.2	63.0	60.0	61.0	62.8	63.8	228.5	240.5	247.5	260.8	5.3%	5.4%
Net Interest Income	59.8	57.5	58.5	62.2	59.0	59.8	61.6	62.5	227.6	238.1	242.8	255.7	4.6%	5.3%
Provision for Loan Losses	0.9	2.6	-7.4	-1.3	0.9	4.6	2.1	2.1	5.0	(5.1)	9.6	10.4	-202.2%	-288.7%
Non-Interest Income:														
Income From Fiduciary Activities	5.1	5.4	5.3	5.5	5.5	6.0	5.8	5.9	20.2	21.4	23.3	24.9	6.0%	8.7%
Service Charges on Deposit Accounts	3.4	3.6	3.8	3.5	3.1	3.2	3.2	3.2	14.8	14.3	12.7	12.7	-3.3%	-11.1%
Other Service Income	2.6	3.4	3.6	4.9	2.8	3.4	3.4	2.6	11.4	14.4	12.2	11.8	26.1%	-15.4%
Checkcard Fee Income	3.5	3.9	3.8	3.9	3.8	4.0	4.0	4.1	14.6	15.1	15.9	16.3	3.4%	5.4%
Other	2.7	2.5	4.0	4.3	2.3	2.6	2.8	3.7	16.5	13.6	11.4	12.3	-17.7%	-16.4%
Securities Gains	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	-100.0%	NA
Total Non-Interest Income	17.4	18.7	20.5	22.1	17.5	19.3	19.2	19.4	77.6	78.7	75.4	78.1	1.5%	-4.3%
Non-Core Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(1.4)	0.0	0.0	0.0	-100.0%	NA
Adjusted Non-Interest Income	17.4	18.7	20.5	22.1	17.5	19.3	19.2	19.4	76.1	78.7	75.4	78.1	3.4%	-4.3%
Non-Interest Expense:														
Salaries and Employee Benefits	26.3	26.2	27.2	26.7	27.9	27.9	27.9	27.6	107.5	106.3	111.3	114.7	-1.1%	4.7%
Occupancy Expense	2.5	2.6	2.5	2.5	2.6	2.6	2.6	2.6	9.7	10.2	10.4	10.6	5.7%	1.1%
Furniture and Equipment Expense	3.4	3.4	3.4	3.4	3.5	3.6	3.6	3.6	11.8	13.8	14.5	14.7	16.6%	5.2%
Data Processing Fees	1.2	1.4	1.5	1.6	2.0	1.7	1.6	1.6	5.0	5.6	6.8	6.4	11.3%	21.6%
Professional Fees and Services	6.7	5.4	6.4	8.8	4.8	6.0	5.3	5.3	23.5	27.2	21.4	21.4	15.9%	-21.4%
Marketing	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	4.0	4.5	4.3	4.4	13.6%	-4.4%
Insurance	1.4	1.4	1.4	1.4	1.6	1.5	1.5	1.5	5.6	5.8	6.1	6.2	3.5%	5.5%
Communication	1.2	1.4	1.2	1.3	1.2	1.2	1.3	1.3	5.1	5.0	5.1	5.3	-2.8%	2.2%
Other	9.7	6.3	5.9	14.1	6.5	6.3	6.5	8.0	29.1	35.9	27.3	27.9	23.3%	-24.1%
Total Non-Interest Expense	49.9	45.3	46.8	57.1	47.5	48.1	47.4	48.6	186.6	199.0	191.6	195.7	6.6%	-3.7%
Non-Core Adjustment	0.0	0.0	0.0	-5.6	0.0	0.0	0.0	0.0	(1.1)	(5.6)	0.0	0.0	404.9%	-100.0%
Adjusted Non-Interest Expense	49.9	45.3	46.8	51.5	47.5	48.1	47.4	48.6	185.5	193.5	191.6	195.7	4.3%	-1.0%
Pretax Income	26.4	28.3	39.7	34.1	28.1	26.3	31.3	31.2	113.3	128.4	117.0	127.8	13.4%	-8.9%
Income Taxes	7.7	8.3	12.2	10.5	7.9	7.3	8.6	8.6	32.7	38.7	32.4	27.1	18.5%	-16.3%
Operating Net Income	18.7	20.0	27.4	23.9	20.3	19.0	22.7	22.6	80.6	89.7	84.6	100.6	11.3%	-5.7%
Share & Per Share Data:														
Diluted EPS	1.21	1.30	1.78	1.30	1.31	1.24	1.47	1.47	5.26	5.59	5.49	6.56	6.4%	-1.7%
Operating EPS	1.21	1.30	1.78	1.53	1.31	1.24	1.47	1.47	5.23	5.83	5.49	6.56	11.3%	-5.7%
Dividends Per Share	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94	3.76	3.76	3.76	3.76	0.0%	0.0%
Tangible Book Value	42.88	43.54	44.27	43.67	43.92	44.45	44.93	45.41	41.81	43.67	45.41	48.00	4.4%	5.7%
Common Shares Outstanding	15,331	15,331	15,331	15,341	15,297	15,297	15,282	15,267	15,331	15,341	15,267	15,207	0.1%	-0.5%
Average Diluted Shares	15,407	15,399	15,400	15,415	15,433	15,399	15,391	15,376	15,405	15,406	15,400	15,339	0.0%	0.0%
Key Financial Statistics:														
Return on Assets	1.01%	1.08%	1.47%	1.08%	1.07%	0.98%	1.14%	1.14%	1.11%	1.16%	1.09%	1.27%	5	(7)
Return on Equity	10.32%	10.92%	14.75%	10.68%	10.90%	10.10%	11.92%	11.76%	11.45%	11.66%	11.17%	12.85%	21	(49)
Net Interest Margin	3.55%	3.43%	3.42%	3.68%	3.49%	3.42%	3.44%	3.50%	3.40%	3.52%	3.48%	3.57%	12	(6)
Operating Non-Int. Inc./Operating Rev.	64.25%	24.46%	25.25%	25.74%	22.55%	24.21%	23.46%	23.30%	24.98%	24.45%	23.38%	23.05%	53	(107)
Efficiency Ratio	59.04%	58.39%	60.41%	61.20%	60.08%	57.61%	58.49%	58.49%	61.25%	60.54%	59.35%	57.76%	(70)	(120)
Tangible Common Ratio	8.94%	9.07%	9.31%	9.06%	8.76%	8.76%	8.98%	8.98%	8.86%	9.06%	8.98%	9.10%	20	(7)
Reserves/Loans	1.12%	1.14%	1.03%	0.96%	1.00%	1.00%	1.00%	1.00%	1.11%	1.11%	1.00%	1.00%	(15)	4
NCOs/Average Loans	0.04%	0.07%	-0.17%	0.13%	0.12%	0.05%	0.12%	0.12%	0.06%	0.02%	0.10%	0.15%	(4)	9

Source: Company reports and Hilliard Lyons estimates.

Additional information is available upon request.

Analyst Certification

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Definitions of Ratings:

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price decline in the next 12 months.

Definitions of Suitabilities:

1. A large cap, core holding with a solid history.

2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.

3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.

4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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