



COMPANY UPDATE/ ESTIMATES CHANGE/ 4Q17 OPERATING EPS REVISION

Key Metrics

PRK - NASDAQ (as of 01/25/18)	\$105.21
Price Target	NA
52-Week Range	\$92.42-\$116.75
Shares Outstanding (mm)	15.3
Market Cap. (\$mm)	\$1,608
3-Mo. Average Daily Volume (000)	23.5
Institutional Ownership	41.4%
Tangible Equity / Tangible Assets	9.5%
ROE	11.1%
Tangible Book Value Per Share	\$44.73
Price/Tangible Book Value	235.2%
Dividend Yield	3.6%
Price/LTM Earnings	19.2x

Operating EPS CY 12/31

	2017A	Prior 2018E	Curr. 2018E	Prior 2019E	Curr. 2019E
1Q	\$1.34	\$1.31	\$1.63		\$1.73
2Q	\$1.26	\$1.24	\$1.74		\$1.80
3Q	\$1.44	\$1.47	\$1.79		\$1.83
4Q	\$1.56	\$1.47	\$1.78		\$1.82
Year	\$5.60	\$5.49	\$6.94		\$7.19
P/E	18.8x		15.2x		14.6x

Common Dividends

	2017A	Curr. 2018E	Prior % chg.	Curr. 2019E
1Q	\$0.94	\$0.94	0.0	\$0.94
2Q	\$0.94	\$0.94	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

4Q17 Earnings & NewDominion Bank Acquisition Review; Reaffirming Neutral Rating

- **Earnings Results:** Excluding a \$0.08 charge from the revaluations of the company's deferred tax liability and tax credit investments, PRK reported 4Q17 operating EPS of \$1.56, which was \$0.07 above our estimate and \$0.05 ahead of the Street consensus. We previously misstated 4Q17 operating EPS as \$1.41.
- **Positive Highlights:** Net interest income increased 3.1% linked-quarter (LQ) to \$63.5 million as 21 bps of net interest margin (NIM) expansion to 3.61% more than offset a 3.0% decline in average earning assets. We had modeled net interest income of \$62.6 million and a 3.52% margin.

Noninterest income dropped 1.4% LQ to \$21.8 million, but was above our projection of \$19.0 million. The primary driver of the sequential reduction was lower bank-owned life insurance income as 3Q results were favorably impacted by a \$0.4 million death benefit from bank owned life insurance.

The provision for loan losses fell \$3.5 million to (\$0.2) million on a LQ basis. The net charge-off ratio increased 23 bps to 0.37%, while NPAs/Assets slipped 19 bps to 1.14%. We had modeled a provision of \$2.5 million.

- **Negative Highlights:** Operating noninterest expense rose 4.4% LQ to \$52.0 million. The increase was primarily attributable to higher employee benefits (10.9%) and professional fees and services (29.3%). We had projected noninterest expense of \$47.4 million.
- **Estimates:** We are increasing our 2018 operating EPS estimate by \$1.45 to \$6.94 and introducing our 2019 estimate at \$7.19. The increase in our EPS estimates is driven by the beneficial impacts of tax reform. We reaffirm our Neutral rating.

End-of-period loans were essentially flat LQ at \$5.4 billion, while average loans rose 0.5%.

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

OTHER KEY TAKEAWAYS

- Tangible book value declined \$0.24 to \$44.73 sequentially and was impacted by the revaluation of PRK's net deferred tax liabilities and qualified affordable housing tax credit investments.
- Interest recoveries on loans associated with the company's former Florida operations benefitted the NIM by eight bps.
- The cost of borrowings decreased 23 bps LQ to 2.15%, primarily as the result of high-cost FHLB borrowing maturities in late-November.
- Management stated that the company's business customers expressed increased optimism regarding the economy and their business prospects following passage of federal tax reform.
- On January 23, PRK announced the acquisition of Charlotte-based NewDominion Bank (NDMN-\$1.07). Park owned 8.6% of NewDominion at the time of announcement and anticipates closing the acquisition in the second half of 2018.
- NDMN had an efficiency ratio of 87.3% during the trailing 12 months ended September 30, 2107. Consequently, expense savings arising from the deal should be significant despite being an out-of-market transaction.
- NewDominion operates two branches in North Carolina and had \$338 million in total assets as of 12/31/17.
- Major model assumptions include two Fed rate hikes in 2018 and 2019, continued flattening of the yield curve and a 17% effective tax rate.

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			
	1Q017 A	2Q017 A	3Q017 A	4Q017 A	1Q018 E	2Q018 E	3Q018 E	4Q018 E	FY 2016 A	FY 2017 A	FY 2018 E	FY 2019 E	FY 2018 E	FY 2019 E
\$Millions, Except for Per Share Data														
Balance Sheet Data:														
Assets	7,744.7	7,832.1	7,862.7	7,537.6	7,554.2	7,629.7	7,706.0	7,802.4	7,467.6	7,537.6	7,802.4	8,052.4	0.9%	3.2%
Gross Loans	5,313.6	5,365.4	5,365.9	5,372.5	5,384.3	5,438.1	5,492.5	5,561.2	5,271.9	5,372.5	5,561.2	5,739.4	1.9%	3.2%
Average Earning Assets	6,963.5	7,146.7	7,393.2	7,190.1	7,055.4	7,098.5	7,169.5	7,250.2	6,847.2	7,173.4	7,143.4	7,383.2	4.8%	3.4%
Deposits	5,920.6	5,961.6	5,974.3	5,817.3	5,830.1	5,888.4	5,947.3	6,021.7	5,522.0	5,817.3	6,021.7	6,214.7	5.3%	3.2%
Equity	744.1	752.2	759.4	756.1	765.2	776.0	787.5	798.8	742.2	756.1	798.8	844.5	1.9%	5.7%
Statement of Operations:														
FTE Net Interest Income	60.0	61.0	62.8	64.9	63.3	64.5	65.8	66.6	240.5	248.7	260.2	269.1	3.4%	3.4%
Net Interest Income	59.0	59.8	61.6	63.5	61.9	63.1	64.4	65.2	238.1	243.8	254.5	263.2	2.4%	3.4%
Provision for Loan Losses	0.9	4.6	3.3	-0.2	2.1	2.5	2.6	3.1	(5.1)	8.6	10.3	12.2	-267.8%	18.2%
Non-Interest Income:														
Income From Fiduciary Activities	5.9	6.3	5.9	6.3	6.5	6.9	6.7	6.8	21.4	24.5	26.9	28.5	14.3%	10.0%
Service Charges on Deposit Accounts	3.1	3.2	3.2	3.1	3.1	3.1	3.2	3.1	14.3	12.7	12.6	12.5	-11.3%	-0.5%
Other Service Income	2.8	3.4	3.4	3.6	2.8	3.2	3.2	2.9	14.4	13.2	12.0	12.5	-8.7%	-8.9%
Checkcard Fee Income	3.8	4.0	4.0	4.0	3.9	4.2	4.2	4.2	15.1	15.8	16.5	17.3	4.9%	4.5%
Other	2.3	2.6	2.6	5.6	4.8	2.8	2.9	3.8	13.6	15.3	12.3	12.3	12.4%	-19.6%
Securities Gains	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA	NA
Total Non-Interest Income	17.9	19.6	22.1	21.8	19.1	20.3	20.1	20.7	78.7	81.4	80.3	83.1	3.3%	-1.3%
Non-Core Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA	NA
Adjusted Non-Interest Income	17.9	19.6	22.1	21.8	19.1	20.3	20.1	20.7	78.7	81.4	80.3	83.1	3.3%	-1.3%
Non-Interest Expense:														
Salaries & Benefits	27.9	27.9	28.0	28.3	29.0	28.6	28.6	28.5	106.3	112.1	114.7	97.2	5.5%	2.4%
Occupancy Expense	2.6	2.6	2.6	2.4	2.5	2.6	2.6	2.5	10.2	10.2	10.2	10.4	-0.4%	0.2%
Furniture and Equipment Expense	3.6	3.6	3.9	4.2	3.7	3.7	3.7	3.8	13.8	15.3	14.9	15.2	11.3%	-2.7%
Data Processing Fees	2.0	1.7	1.9	1.7	1.7	1.7	1.8	1.8	5.6	7.3	7.0	7.3	29.3%	-3.8%
Professional Fees and Services	4.8	6.0	6.1	7.9	5.3	5.3	5.3	5.3	27.2	24.8	21.2	21.6	-8.6%	-14.8%
Marketing	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	4.5	4.4	4.5	4.5	-3.3%	2.3%
Insurance	1.6	1.5	1.5	1.5	1.6	1.6	1.6	1.6	5.8	6.4	6.5	6.6	9.1%	1.7%
Communication	1.3	1.2	1.1	1.2	1.2	1.2	1.2	1.2	5.0	4.8	4.9	4.9	-3.4%	2.0%
Other	6.5	6.3	7.4	7.5	6.6	6.6	6.7	8.2	35.9	27.7	28.1	28.7	-23.0%	1.5%
Total Non-Interest Expense	47.5	48.1	49.8	52.0	48.8	48.6	48.7	50.0	199.0	197.4	196.1	201.8	-0.8%	-0.7%
Non-Core Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(5.6)	0.0	0.0	0.0	-100.0%	NA
Adjusted Non-Interest Expense	47.5	48.1	49.8	52.0	48.8	48.6	48.7	50.0	193.5	197.4	196.1	201.8	2.0%	-0.7%
Pretax Income	28.5	26.7	30.6	33.5	30.1	32.3	32.9	32.9	128.4	119.2	128.4	132.4	-7.2%	7.7%
Income Taxes	7.9	7.3	8.4	9.4	5.1	5.5	5.7	5.6	38.7	33.0	21.8	22.5	-14.7%	-34.0%
Operating Net Income	20.7	19.3	22.1	24.0	25.0	26.8	27.3	27.3	89.7	86.2	106.5	109.9	-4.0%	23.6%
Share & Per Share Data:														
Diluted EPS	1.31	1.24	1.44	1.48	1.63	1.74	1.79	1.78	5.59	5.47	6.94	7.19	-2.1%	26.8%
Operating EPS	1.34	1.26	1.44	1.56	1.63	1.74	1.78	1.78	5.83	5.60	6.94	7.19	-3.9%	23.9%
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	43.92	44.45	44.97	44.73	45.36	46.12	46.92	47.70	43.67	44.73	47.70	50.91	2.4%	6.7%
Common Shares Outstanding	15,297	15,297	15,277	15,288	15,273	15,258	15,243	15,228	15,341	15,288	15,228	15,168	-0.3%	-0.4%
Average Diluted Shares	15,433	15,399	15,362	15,379	15,374	15,359	15,344	15,329	15,406	15,391	15,352	15,292	-0.1%	-0.3%
Key Financial Statistics:														
Return on Assets	1.07%	0.98%	1.11%	1.17%	1.34%	1.41%	1.42%	1.40%	1.16%	1.08%	1.39%	1.39%	(8)	31
Return on Equity	10.90%	10.10%	11.52%	11.85%	13.34%	13.93%	13.95%	13.64%	11.66%	11.09%	13.72%	13.38%	(56)	262
Net Interest Margin	3.49%	3.42%	3.40%	3.61%	3.64%	3.64%	3.65%	3.65%	3.52%	3.48%	3.64%	3.64%	(4)	16
Operating Non-Int. Inc./Operating Rev.	22.96%	24.50%	25.98%	25.17%	23.26%	23.97%	23.44%	23.78%	24.45%	24.65%	23.61%	23.64%	20	(104)
Efficiency Ratio	61.20%	60.08%	58.49%	60.00%	59.19%	57.28%	56.65%	57.21%	60.54%	59.94%	57.58%	57.27%	(60)	(31)
Tangible Common Ratio	8.76%	8.76%	8.82%	9.16%	9.26%	9.31%	9.37%	9.40%	9.06%	9.16%	9.40%	9.68%	10	24
Reserves/Loans	0.94%	1.00%	1.03%	0.93%	0.93%	0.93%	0.93%	0.93%	0.96%	0.93%	0.93%	0.93%	(3)	0
NCOs/Average Loans	0.12%	0.05%	0.14%	0.38%	0.15%	0.15%	0.15%	0.18%	0.02%	0.17%	0.16%	0.19%	16	(1)

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.

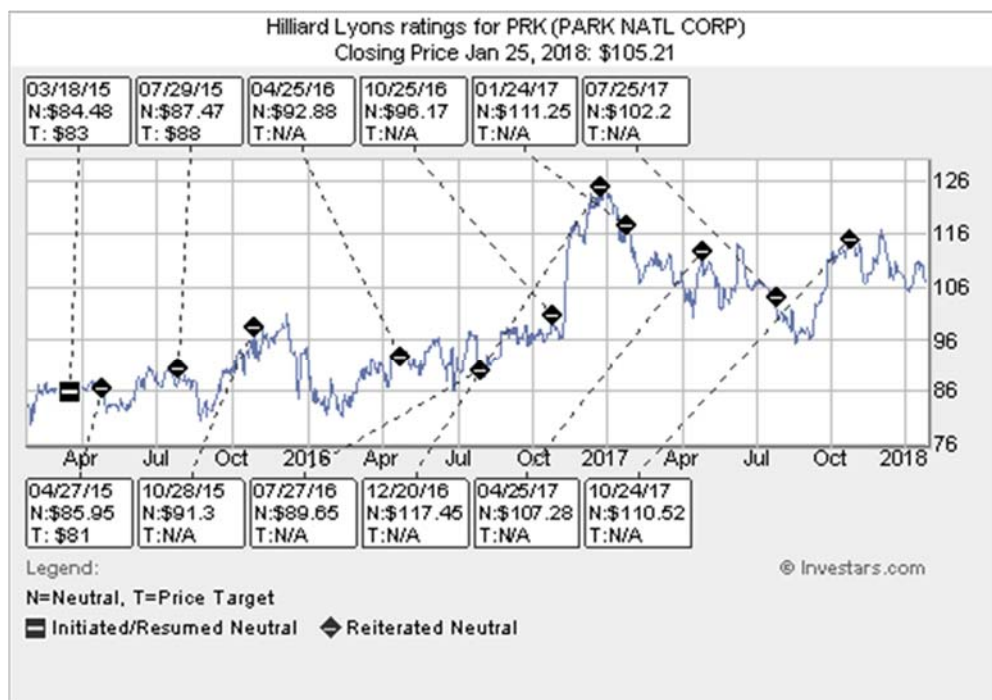
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

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



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	31	28%	10%	90%
Hold/Neutral	75	67%	9%	91%
Sell	6	5%	0%	100%

As of 8 January 2018

Other Disclosures

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