PINNACLE FINANCIAL PARTNERS INC
Form 10-Q
August 04, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(mark one)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934
For the transition period from ____ to ____
Commission File Number: 000-31225

, Inc.
(Exact name of registrant as specified in its charter)

Tennessee	62-1812853
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
150 Third Avenue South, Suite 900, Nashville, Tennessee	37201
(Address of principal executive offices)	(Zip Code)

(615) 744-3700
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changes since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files).
Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x	Accelerated Filer o
Non-accelerated Filer o (do not check if you are a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

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

As of August 1, 2017 there were 77,658,511 shares of common stock, $1.00 par value per share, issued and outstanding.

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Pinnacle Financial Partners, Inc.
Report on Form 10-Q
June 30, 2017

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FORWARD-LOOKING STATEMENTS

Certain of the statements in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" and similar expressions are intended to identify such forward-looking statements, but other statements not based on historical information may also be considered forward-looking statements. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from the statements, including, but not limited to: (i) deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses; (ii) continuation of the historically low short-term interest rate environment; (iii) the inability of Pinnacle Financial, or entities in which it has significant investments, like BHG, to maintain the historical growth rate of its, or such entities', loan portfolio; (iv) changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments; (v) effectiveness of Pinnacle Financial's asset management activities in improving, resolving or liquidating lower-quality assets; (vi) increased competition with other financial institutions; (vii) greater than anticipated adverse conditions in the national or local economies including in Pinnacle Financial's markets throughout Tennessee, North Carolina, South Carolina and Virginia, particularly in commercial and residential real estate markets; (viii) rapid fluctuations or unanticipated changes in interest rates on loans or deposits; (ix) the results of regulatory examinations; (x) the ability to retain large, uninsured deposits; (xi) a merger or acquisition, like Pinnacle Financial's merger with BNC; (xii) risks of expansion into new geographic or product markets; (xiii) any matter that would cause Pinnacle Financial to conclude that there was impairment of any asset, including intangible assets; (xiv) reduced ability to attract additional financial advisors (or failure of such advisors to cause their clients to switch to Pinnacle Bank), to retain financial advisors or otherwise to attract customers from other financial institutions; (xv) further deterioration in the valuation of other real estate owned and increased expenses associated therewith; (xvi) inability to comply with regulatory capital requirements, including those resulting from changes to capital calculation methodologies and required capital maintenance levels; (xvii) risks associated with litigation, including the applicability of insurance coverage; (xviii) the risk of successful integration of the businesses Pinnacle Financial has recently acquired with its business; (xix) approval of the declaration of any dividend by Pinnacle Financial's board of directors; (xx) the vulnerability of Pinnacle Bank's network and online banking portals to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches; (xxi) the possibility of increased compliance costs as a result of increased regulatory oversight, including oversight of companies in which Pinnacle Financial or Pinnacle Bank have significant investments, like BHG, and the development of additional banking products for Pinnacle Bank's corporate and consumer clients; (xxii) the risks associated with Pinnacle Financial and Pinnacle Bank being a minority investor in BHG, including the risk that the owners of a majority of the equity interests in BHG decide to sell the company if not prohibited from doing so by the terms of our agreement with them; (xxiii) the possibility that the incremental cost and/or decreased revenues associated with exceeding $10 billion in assets will exceed current estimates; (xxiv) changes in state and federal legislation, regulations or policies applicable to banks and other financial service providers, like BHG, including regulatory or legislative developments; (xxv) the risk that the cost savings and any revenue synergies from Pinnacle Financial's merger with BNC may not be realized or take longer than anticipated to be realized; (xxvi) disruption from Pinnacle Financial's merger with BNC with customers, suppliers, employee or other business partners relationships; (xxvii) the risk of successful integration of Pinnacle Financial's and BNC's businesses; (xxviii) the amount of the costs, fees, expenses and charges related to Pinnacle Financial's merger with BNC; (xxix) reputational risk and the reaction of the parties' customers, suppliers, employees or other business partners to Pinnacle Financial's merger with BNC; (xxx) the risk that the integration of Pinnacle Financial's and BNC's operations will be materially delayed or will be more costly or difficult than expected; (xxxi) the dilution caused by Pinnacle Financial's issuance of additional shares of its common stock in its merger with BNC; and (xxxii) general competitive, economic, political and market conditions. A more detailed description of these and other risks is contained herein and in Pinnacle Financial's most recent annual report on Form 10-K filed with the Securities and

Exchange Commission on February 27, 2017, Pinnacle Financial's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 as filed with the Securities and Exchange Commission on May 5, 2017 and in Part II, Item 1A "Risk Factors" below. Many of such factors are beyond Pinnacle Financial's ability to control or predict and readers are cautioned not to put undue reliance on such forward-looking statements. Pinnacle Financial disclaims any obligation to update or revise any forward-looking statements contained in this report, which speak only as of the date hereof, whether as a result of new information, future events or otherwise.

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Item 1. Part I. Financial Information
PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
Cash and noninterest-bearing due from banks	$121,804,437	$84,732,291
Interest-bearing due from banks	416,980,586	97,529,713
Federal funds sold and other	—	1,383,416
Cash and cash equivalents	538,785,023	183,645,420
Securities available-for-sale, at fair value	2,427,034,287	1,298,546,056
Securities held-to-maturity (fair value of $21,322,047 and $25,233,254 at June 30, 2017 and December 31, 2016, respectively)	21,163,360	25,251,316
Consumer mortgage loans held-for-sale	90,275,468	47,710,120
Commercial mortgage loans held-for-sale	11,367,997	22,587,971
Loans	14,758,764,516	8,449,924,736
Less allowance for loan losses	(61,944,494)	(58,980,475)
Loans, net	14,696,820,022	8,390,944,261
Premises and equipment, net	258,037,159	88,904,145
Equity method investment	207,020,432	205,359,844
Accrued interest receivable	48,417,956	28,234,826
Goodwill	1,800,741,933	551,593,796
Core deposits and other intangible assets	60,963,513	15,104,038
Other real estate owned	24,805,764	6,089,804
Other assets	700,720,864	330,651,002
Total assets	$20,886,153,778	$11,194,622,599
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$3,893,603,182	$2,399,191,152
Interest-bearing	2,602,527,348	1,808,331,784
Savings and money market accounts	6,820,024,282	3,714,930,351
Time	2,441,319,823	836,853,761
Total deposits	15,757,474,635	8,759,307,048
Securities sold under agreements to repurchase	205,008,077	85,706,558
Federal Home Loan Bank advances	725,230,449	406,304,187
Subordinated debt and other borrowings	465,419,408	350,768,050
Accrued interest payable	7,630,882	5,573,377
Other liabilities	110,063,488	90,267,267
Total liabilities	17,270,826,939	9,697,926,487
Stockholders' equity:		
Preferred stock, no par value, 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, par value $1.00; 90,000,000 shares authorized; 77,646,512 and 46,359,377 shares issued and outstanding at June 30, 2017 and December 31,	77,646,512	46,359,377

2016, respectively		
Additional paid-in capital	3,100,154,656	1,083,490,728
Retained earnings	449,762,022	381,072,505
Accumulated other comprehensive loss, net of taxes	(12,236,351)	(14,226,498)
Total stockholders' equity	3,615,326,839	1,496,696,112
Total liabilities and stockholders' equity	$20,886,153,778	$11,194,622,599

See accompanying notes to consolidated financial statements (unaudited).

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Interest income:				
Loans, including fees	$112,319,700	$77,043,106	$205,537,647	$151,447,310
Securities:				
Taxable	8,265,225	4,571,876	14,698,313	9,038,710
Tax-exempt	2,235,517	1,443,017	3,913,098	2,936,774
Federal funds sold and other	922,796	703,706	1,737,113	1,313,293
Total interest income	123,743,238	83,761,705	225,886,171	164,736,087
Interest expense:				
Deposits	10,993,942	5,073,567	19,112,856	9,989,130
Securities sold under agreements to repurchase	78,438	39,532	128,204	87,582
Federal Home Loan Bank advances and other borrowings	6,043,144	3,605,320	11,250,524	5,713,412
Total interest expense	17,115,524	8,718,419	30,491,584	15,790,124
Net interest income	106,627,714	75,043,286	195,394,587	148,945,963
Provision for loan losses	6,812,389	5,280,101	10,463,411	9,173,671
Net interest income after provision for loan losses	99,815,325	69,763,185	184,931,176	139,772,292
Noninterest income:				
Service charges on deposit accounts	4,178,736	3,430,391	8,034,219	6,873,075
Investment services	3,110,088	2,499,719	5,931,922	4,845,319
Insurance sales commissions	1,461,160	1,192,827	3,320,050	2,898,686
Gain on mortgage loans sold, net	4,667,537	4,221,301	8,822,489	7,788,852
Gain on sale of investment securities, net	—	—	—	—
Trust fees	1,677,079	1,491,955	3,382,358	3,072,567
Income from equity method investment	8,754,718	9,644,310	16,577,455	14,791,834
Other noninterest income	11,207,239	10,232,433	19,369,658	18,298,313
Total noninterest income	35,056,557	32,712,936	65,438,151	58,568,646
Noninterest expense:				
Salaries and employee benefits	43,675,551	34,254,147	82,027,735	66,771,003
Equipment and occupancy	10,712,711	8,312,272	20,387,369	16,442,736
Other real estate expense	62,960	222,473	314,933	334,745
Marketing and other business development	2,126,693	1,537,843	4,005,899	2,801,204
Postage and supplies	1,122,251	1,049,842	2,318,696	2,006,929
Amortization of intangibles	1,471,568	846,615	2,667,697	1,719,830
Merger related expense	3,221,060	980,182	3,893,076	2,809,654
Other noninterest expense	9,404,755	8,727,393	18,235,520	17,108,362
Total noninterest expense	71,797,549	55,930,767	133,850,925	109,994,463
Income before income taxes	63,074,333	46,545,354	116,518,402	88,346,475
Income tax expense	19,987,812	15,758,582	33,778,834	29,594,439
Net income	$43,086,521	$30,786,772	$82,739,568	$58,752,036
Per share information:				

Basic net income per common share	$0.81	$0.75	$1.64	$1.44
Diluted net income per common share	$0.80	$0.73	$1.62	$1.42
Weighted average shares outstanding:				
Basic	53,097,776	41,274,450	50,574,079	40,678,669
Diluted	53,665,925	41,974,483	51,105,996	41,411,248

See accompanying notes to consolidated financial statements (unaudited).

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net income	$43,086,521	$30,786,772	$82,739,568	$58,752,036
Other comprehensive income, net of tax:				
Change in fair value on available-for-sale securities, net of tax	1,795,006	3,211,042	986,851	9,642,510
Change in fair value of cash flow hedges, net of tax	1,146,252	(339,961)	1,003,296	(1,263,664)
Net gain on sale of investment securities reclassified from other comprehensive income into net income, net of tax	—	—	—	—
Total other comprehensive income, net of tax	2,941,258	2,871,081	1,990,147	8,378,846
Total comprehensive income	$46,027,779	$33,657,853	$84,729,715	$67,130,882

See accompanying notes to consolidated financial statements (unaudited).

PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock					
	Shares	Amounts	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comp. Income, net	Total Stockholder's Equity
Balance at December 31, 2015	40,906,064	$40,906,064	$839,617,050	$278,573,408	$(3,485,222)	$1,155,611,300
Exercise of employee common stock options and related tax benefits	332,094	332,094	6,798,402	—	—	7,130,496
Common dividends paid	—	—	—	(11,717,393)	—	(11,717,393)
Issuance of restricted common shares, net of forfeitures	141,331	141,331	(141,331)	—	—	—
Common stock issued in conjunction with Bankers Healthcare Group investment, net	860,470	860,470	38,827,126	—	—	39,687,596
Restricted shares withheld for taxes and related tax benefit	(55,839)	(55,839)	(878,179)	—	—	(934,018)
Compensation expense for restricted shares	—	—	5,244,947	—	—	5,244,947
Net income	—	—	—	58,752,036	—	58,752,036
Other comprehensive income	—	—	—	—	8,378,846	8,378,846
Balance at June 30, 2016	42,184,120	$42,184,120	$889,468,015	$325,608,051	$4,893,624	$1,262,153,810
Balance at December 31, 2016	46,359,377	$46,359,377	$1,083,490,728	$381,072,505	$(14,226,498)	$1,496,696,112
Exercise of employee common stock options	183,708	183,708	3,399,370	—	—	3,583,078
Common dividends paid	—	—	—	(14,050,051)	—	(14,050,051)
Issuance of restricted common shares, net of forfeitures	259,156	259,156	(259,156)	—	—	—
Issuance of common equity, net of costs	3,220,000	3,220,000	188,973,750	—	—	192,193,750
Common stock issued in conjunction with acquisition of BNC Bancorp, net of issuance costs	27,687,100	27,687,100	1,820,146,049	—	—	1,847,833,149

Restricted shares withheld for taxes	(62,829)	(62,829)	(4,229,294)	—	—	(4,292,123)
Compensation expense for restricted shares	—	—	8,633,209	—	—	8,633,209
Net income	—	—	—	82,739,568	—	82,739,568
Other comprehensive income	—	—	—	—	1,990,147	1,990,147
Balance at June 30, 2017	77,646,512	$77,646,512	$3,100,154,656	$449,762,022	$(12,236,351)	$3,615,326,839

See accompanying notes to consolidated financial statements (unaudited).

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended June 30, 2017	2016
Operating activities:		
Net income	$82,739,568	$58,752,036
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization/accretion of premium/discount on securities	4,388,093	2,940,923
Depreciation, amortization and accretion	(1,927,832)	1,220,878
Provision for loan losses	10,463,411	9,173,671
Gain on mortgage loans sold, net	(8,822,489)	(7,788,852)
Stock-based compensation expense	8,633,209	5,244,947
Deferred tax expense	15,371,727	1,750,526
Losses on dispositions of other real estate and other investments	36,874	218,568
Income from equity method investment	(16,577,455)	(14,791,834)
Excess tax benefit from stock compensation	(4,548,841)	(2,422,226)
Gain on other loans sold, net	(483,402)	(548,560)
Other loans held for sale:		
Loans originated	(60,171,584)	(30,854,000)
Loans sold	71,874,960	22,079,777
Mortgage loans held for sale:		
Loans originated	(268,698,182)	(195,638,601)
Loans sold	261,981,394	198,239,000
Increase in other assets	(4,092,485)	(18,585,336)
Increase (decrease) in other liabilities	(21,164,810)	30,286,044
Net cash provided by operating activities	69,002,156	59,276,961
Investing activities:		
Activities in securities available-for-sale:		
Purchases	(611,442,128)	(265,495,464)
Sales	7,492,168	—
Maturities, prepayments and calls	118,629,440	104,509,440
Activities in securities held-to-maturity:		
Purchases	—	(560,000)
Maturities, prepayments and calls	3,885,000	3,170,000
Increase in loans, net	(700,982,747)	(559,866,109)
Purchases of software, premises and equipment	(18,690,967)	(6,700,278)
Proceeds from sales of software, premises and equipment	—	1,949,036
Proceeds from sale of other real estate	2,910,226	2,323,953
Acquisitions, net of cash paid	155,141,674	—
Purchase of bank owned life insurance policies	(25,000,000)	—
Increase in equity method investment	—	(74,100,000)
Dividends received from equity method investment	14,916,867	21,824,256
Increase in other investments	(5,376,058)	(16,944,435)
Net cash used in investing activities	(1,058,516,525)	(789,889,601)
Financing activities:		
Net increase in deposits	791,495,223	321,819,132
Net increase (decrease) in securities sold under agreements to repurchase	56,991,437	(5,767,418)

Advances from Federal Home Loan Bank:		
Issuances	836,000,000	1,528,000,000
Payments/maturities	(517,034,260)	(1,045,064,801)
Increase (decrease) in other borrowings, net	(160,100)	87,976,401
Principal payments of capital lease obligation	(72,982)	—
Proceeds from common stock issuance, net	192,193,750	—
Exercise of common stock options and stock appreciation rights, net of repurchase of restricted shares	(709,045)	3,774,252
Excess tax benefit from stock compensation	—	2,422,226
Common stock dividends paid	(14,050,051)	(11,717,393)
Net cash provided by financing activities	1,344,653,972	881,442,399
Net increase in cash and cash equivalents	355,139,603	150,829,759
Cash and cash equivalents, beginning of period	183,645,420	320,951,333
Cash and cash equivalents, end of period	$538,785,023	$471,781,092

See accompanying notes to consolidated financial statements (unaudited).

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Nature of Business — Pinnacle Financial Partners, Inc. (Pinnacle Financial) is a bank holding company whose primary business is conducted by its wholly-owned subsidiary, Pinnacle Bank. Pinnacle Bank is a commercial bank headquartered in Nashville, Tennessee. Pinnacle Financial completed its acquisitions of CapitalMark Bank & Trust (CapitalMark), Magna Bank (Magna), Avenue Financial Holdings, Inc. (Avenue) and BNC Bancorp (BNC) on July 31, 2015, September 1, 2015, July 1, 2016 and June 16, 2017, respectively. Pinnacle Financial and Pinnacle Bank also collectively hold a 49% interest in Bankers Healthcare Group, LLC (BHG), a full-service commercial loan provider to healthcare and other professional practices. Pinnacle Bank provides a full range of banking services, including investment, mortgage, insurance services, and comprehensive wealth management services, in its 11 primarily urban markets of Tennessee, the Carolinas and Virginia.

Basis of Presentation — The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles (U.S. GAAP). All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods covered by the report have been included. The accompanying unaudited consolidated financial statements should be read in conjunction with the Pinnacle Financial consolidated financial statements and related notes appearing in the 2016 Annual Report previously filed on Form 10-K.

These consolidated financial statements include the accounts of Pinnacle Financial and its wholly-owned subsidiaries. Certain statutory trust affiliates of Pinnacle Financial as noted in footnote 12 of this report are included in these consolidated financial statements pursuant to the equity method of accounting. Significant intercompany transactions and accounts are eliminated in consolidation.

Use of Estimates — The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, determination of any impairment of intangible assets and the valuation of deferred tax assets. There have been no significant changes to Pinnacle Financial's significant accounting policies as disclosed in Pinnacle Financial's Annual Report on Form 10-K for the year ended December 31, 2016, with the exception of the adoption of ASU 2016-09, which became effective January 1, 2017, as described more fully in Recently Adopted Accounting Pronouncements below.

Cash Flow Information — Supplemental cash flow information addressing certain cash and noncash transactions for each of the six months ended June 30, 2017 and June 30, 2016 was as follows:

	For the six months ended June 30,	
	2017	2016
Cash Transactions:		
Interest paid	$29,310,536	$14,722,572
Income taxes paid, net	25,035,510	22,364,686

Noncash Transactions:		
Loans charged-off to the allowance for loan losses	10,320,665	16,372,819
Loans foreclosed upon and transferred to other real estate owned	1,520,444	2,464,945
Loans foreclosed upon and transferred to other assets	446,487	1,673,946
Common stock issued in connection with equity-method investment	—	39,694,036
Common stock issued in connection with acquisition [1]	1,858,132,809	—

[1] See Note 2 to these consolidated financial statements for more detailed information.

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Income Per Common Share — Basic net income per common share (EPS) is computed by dividing net income by the weighted average common shares outstanding for the period. Diluted EPS reflects the dilution that could occur if securities or other contracts to issue common stock were exercised or converted. The difference between basic and diluted weighted average shares outstanding is attributable to common stock options, common stock appreciation rights, restricted share awards, and restricted share unit awards. The dilutive effect of outstanding options, common stock appreciation rights, restricted share awards, and restricted share unit awards is reflected in diluted EPS by application of the treasury stock method.

The following is a summary of the basic and diluted net income per share calculations for the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Basic net income per share calculation:				
Numerator - Net income	$43,086,521	$30,786,772	$82,739,568	$58,752,036
Denominator - Weighted average common shares outstanding	53,097,776	41,274,450	50,574,079	40,678,669
Basic net income per common share	$0.81	$0.75	$1.64	$1.44
Diluted net income per share calculation:				
Numerator – Net income	$43,086,521	$30,786,772	$82,739,568	$58,752,036
Denominator - Weighted average common shares outstanding	53,097,776	41,274,450	50,574,079	40,678,669
Dilutive shares contingently issuable	568,149	700,033	531,917	732,579
Weighted average diluted common shares outstanding	53,665,925	41,974,483	51,105,996	41,411,248
Diluted net income per common share	$0.80	$0.73	$1.62	$1.42

On January 27, 2017, Pinnacle Financial completed the issuance and sale of 3,220,000 shares of common stock (including 420,000 shares issued as a result of the underwriter exercising its over-allotment option) in an underwritten public offering, which shares are included in the share count above. The net proceeds of the offering, after deducting the underwriting discount and estimated offering expenses, were approximately $192.2 million. Also, Pinnacle Financial issued 27,687,100 shares of common stock in conjunction with the acquisition of BNC on June 16, 2017.

Recently Adopted Accounting Pronouncements — In March 2016, the FASB issued updated guidance to Accounting Standards Update, 2016-09 Stock Compensation Improvements to Employee Share-Based Payment Activity (ASU 2016-09) intended to simplify and improve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of such awards as either equity or liabilities and classification of such awards on the statement of cash flows. This Accounting Standards Update (ASU) impacted Pinnacle Financial's consolidated financial statements by requiring that all income tax effects related to settlements of share-based payment awards be reported as increases (or decreases) to income tax expense. Previously, income tax benefits at settlement of an award were reported as an increase (or decrease) to additional paid-in capital. The ASU also requires that all income tax related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows whereas these cash flows were previously reported as a reduction to operating cash flows and an increase to financing cash flows. The guidance became effective for Pinnacle Financial on January 1, 2017. During the three and six months ended June 30, 2017, the newly adopted standard resulted in a reduction in tax expense of $789,000 and $4.6 million, respectively.

Subsequent Events — Accounting Standards Codification (ASC) Topic 855, Subsequent Events, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. Pinnacle Financial evaluated all events or transactions that occurred after June 30, 2017 through the date of the issued financial statements.

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Note 2. Acquisitions

Avenue Financial Holdings, Inc. On July 1, 2016, Pinnacle Financial consummated its merger with Avenue, and Avenue Bank, Avenue's wholly-owned bank subsidiary. Pursuant to the terms of the Agreement and Plan of Merger, dated as of January 28, 2016, by and between Pinnacle Financial and Avenue (the Avenue Merger Agreement), Avenue merged with and into Pinnacle Financial, with Pinnacle Financial continuing as the surviving corporation (the Avenue Merger). On that same day, Pinnacle Bank and Avenue Bank merged, with Pinnacle Bank continuing as the surviving entity.

The following summarizes the consideration paid and an allocation of purchase price to net assets acquired (dollars in thousands):

	Number of Shares	Amount
Equity consideration:		
Common stock issued	3,760,326	$182,469
Total equity consideration		$182,469
Non-equity consideration:		
Cash paid to redeem common stock		$20,910
Cash paid to exchange outstanding stock options		987
Total consideration paid		$204,366
Allocation of total consideration paid:		
Fair value of net assets assumed including identifiable intangible assets		$81,695
Goodwill		122,671
		$204,366

Goodwill originating from the Avenue Merger resulted primarily from anticipated synergies arising from the combination of certain operational areas of the businesses of Avenue and Pinnacle Financial as well as the purchase premium inherent in buying a complete and successful banking operation. Goodwill associated with the Avenue Merger is not amortizable for book or tax purposes.

Pinnacle Financial accounted for the Avenue Merger under the acquisition method in accordance with ASC Topic 805. Accordingly, the purchase price is allocated to the fair value of the assets acquired and liabilities assumed as of the date of merger. Purchase price allocations related to the acquisition of Avenue have been completed and are reflected in the following table (in thousands):

	As of July 1, 2016		
	Avenue Historical Cost Basis	Fair Value Adjustments	As Recorded by Pinnacle Financial
Assets			
Cash and cash equivalents	$39,485	$ —	$39,485
Investment securities [(1)]	163,862	(463)	163,399
Loans [(2)]	980,319	(27,789)	952,530
Mortgage loans held for sale	3,310	—	3,310
Core deposit intangible [(3)]	—	8,845	8,845
Other assets [(4)]	47,729	8,774	56,503

Total Assets	$1,234,705	$ (10,633)	$1,224,072
Liabilities			
Interest-bearing deposits (5)	$741,635	$ 1,400	$743,035
Non-interest bearing deposits	223,685	—	223,685
Borrowings (6)	142,639	3,240	145,879
Other liabilities	29,719	59	29,778
Total Liabilities	$1,137,678	$ 4,699	$1,142,377
Net Assets Acquired	$97,027	$ (15,332)	$81,695

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Explanation of certain fair value adjustments:

(1) The amount represents the adjustment of the book value of Avenue's investment securities to their estimated fair value on the date of acquisition.

(2) The amount represents the adjustment of the net book value of Avenue's loans to their estimated fair value based on interest rates and expected cash flows as of the date of acquisition, which includes estimates of expected credit losses inherent in the portfolio.

(3) The amount represents the fair value of the core deposit intangible asset representing the intangible value of the deposit base acquired.

(4) The amount represents the deferred tax asset recognized on the fair value adjustment of Avenue's acquired assets and assumed liabilities as well as the fair value adjustment for property and equipment.

(5) The amount represents the adjustment necessary because the weighted average interest rate of Avenue's deposits exceeded the cost of similar funding at the time of acquisition. The fair value adjustment will be amortized to reduce future interest expense over the life of the portfolio.

(6) The amount represents the adjustment necessary because the weighted average interest rate of Avenue's FHLB advances and subordinated debt issuance exceeded the cost of similar funding at the time of acquisition. The fair value adjustment will be amortized to reduce future interest expense over the life of the portfolio.

BNC Bancorp. On June 16, 2017, Pinnacle Financial consummated its merger with BNC. Pursuant to the terms of the Agreement and Plan of Merger, dated as of January 22, 2017, by and between Pinnacle Financial and BNC (the BNC Merger Agreement), BNC merged with and into Pinnacle Financial, with Pinnacle Financial continuing as the surviving corporation (the BNC Merger). On that same day, Pinnacle Bank and Bank of North Carolina, BNC's wholly-owned bank subsidiary, merged, with Pinnacle Bank continuing as the surviving entity.

The following summarizes the consideration paid and presents a preliminary allocation of purchase price to net assets acquired (dollars in thousands):

	Number of Shares	Amount
Equity consideration:		
Common stock issued	27,687,100	$1,858,133
Total equity consideration		$1,858,133
Non-equity consideration:		
Cash paid to redeem common stock		$129
Total consideration paid		$1,858,262
Allocation of total consideration paid:		
Fair value of net assets assumed including estimated identifiable intangible assets		$609,068
Goodwill		1,249,194
		$1,858,262

Subsequently, Pinnacle Financial recorded costs incurred in connection with the issuance of Pinnacle Financial common stock resulting from the BNC Merger of $10.3 million which was recorded as a reduction to additional paid in capital. Certain merger-related charges resulting from cultural and systems integrations, as well as stock-based compensation expense incurred as a result of change-in-control provisions applicable to assumed equity-based awards were recorded as merger related expense.

Goodwill originating from the BNC Merger resulted primarily from anticipated synergies arising from the combination of certain operational areas of the businesses of BNC and Pinnacle Financial as well as the purchase premium inherent in buying a complete and successful banking operation. Goodwill associated with the BNC Merger is not amortizable for book or tax purposes.

Pinnacle Financial accounted for the BNC Merger under the acquisition method in accordance with ASC Topic 805. Accordingly, the purchase price is allocated to the fair value of the assets acquired and liabilities assumed as of the date of merger.

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The following purchase price allocations on the BNC Merger are preliminary and will be finalized upon the receipt of final valuations on certain assets and liabilities. Upon receipt of final fair value estimates, which must be received within one year of the BNC Merger date, Pinnacle Financial will make any final adjustments to the purchase price allocation and prospectively adjust any goodwill recorded. Information regarding Pinnacle Financial's loan discount and related deferred tax asset, core deposit intangible asset and related deferred tax liability, as well as income taxes payable and the related deferred tax balances recorded in the BNC Merger, may be adjusted as Pinnacle Financial refines its estimates. Determining the fair value of assets and liabilities, particularly illiquid assets and liabilities, is a complicated process involving significant judgment regarding estimates and assumptions used to calculate estimated fair value. Fair value adjustments based on updated estimates could materially affect the goodwill recorded on the BNC Merger. Pinnacle Financial may incur losses on the acquired loans that are materially different from losses Pinnacle Financial originally projected.

	As of June 16, 2017		
	BNC Historical Cost Basis	Preliminary Fair Value Adjustments	As Recorded by Pinnacle Financial
Assets			
Cash and cash equivalents	$155,271	$ —	$155,271
Investment securities (1)	643,875	1,667	645,542
Loans (2)	5,782,720	(175,473)	5,607,247
Mortgage loans held for sale	27,026	—	27,026
Other real estate owned	20,143	—	20,143
Core deposit intangible (3)	—	48,528	48,528
Property, plant and equipment (4)	156,805	—	156,805
Other assets (5)	320,988	49,311	370,299
Total Assets	$7,106,828	$ (75,967)	$7,030,861
Liabilities			
Interest-bearing deposits (6)	$5,003,653	$ 4,355	$5,008,008
Non-interest bearing deposits	1,199,342	—	1,199,342
Borrowings (7)	183,389	(6,412)	176,977
Other liabilities	35,729	1,737	37,466
Total Liabilities	$6,422,113	$ (320)	$6,421,793
Net Assets Acquired	$684,715	$ (75,647)	$609,068

Explanation of certain fair value adjustments:

(1) The amount represents the adjustment of the book value of BNC's investment securities to their estimated fair value on the date of acquisition.

(2) The amount represents the adjustment of the net book value of BNC's loans to their estimated fair value based on interest rates and expected cash flows as of the date of acquisition, which includes estimates of expected credit losses inherent in the portfolio of approximately 2.5% of the 3% mark on the acquired loan portfolio.

(3) The amount represents the fair value of the core deposit intangible asset representing the intangible value of the deposit base acquired and the fair value of the customer relationship intangible asset representing the intangible value of customer relationships acquired.

(4) A fair value adjustment for property and equipment will be recorded, but no estimate is determinable at this time.

(5)

The amount represents the deferred tax asset recognized on the fair value adjustment of BNC's acquired assets and assumed liabilities.

(6) The amount represents the adjustment necessary because the weighted average interest rate of BNC's deposits exceeded the cost of similar funding at the time of acquisition. The fair value adjustment will be amortized to reduce future interest expense over the life of the portfolio.

(7) The amount represents the combined adjustment necessary because the weighted average interest rate of BNC's subordinated debt issuance exceeded the cost of similar funding at the time of acquisition and because the weighted average interest rate of BNC's trust preferred securities issuances was lower than the cost of similar funding at the time of acquisition. The combined fair value adjustments will be amortized to increase future interest expense over the lives of the portfolios.

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Supplemental Pro Forma Combined Results of Operations

The supplemental proforma information below for the three and six months ended June 30, 2017 and 2016 gives effect to the BNC acquisition as if it had occurred on January 1, 2016. These results combine the historical results of BNC into Pinnacle Financial's consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair value adjustments, they are not indicative of what would have occurred had the acquisition taken place on the indicated date nor are they intended to represent or be indicative of future results of operations. In particular, no adjustments have been made to eliminate the amount of BNC's provision for credit losses for the first six months of 2016 that may not have been necessary had the acquired loans been recorded at fair value as of the beginning of 2016. Additionally, these financials were not adjusted for non-recurring expenses, such as merger-related charges incurred by either Pinnacle Financial or BNC. Pinnacle Financial expects to achieve operating cost savings and other business synergies as a result of the acquisition which are also not reflected in the proforma amounts.

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
Revenue [(1)]	$204,172	$180,436	$400,407	$328,384
Income before income taxes	$90,743	$66,510	$163,298	$127,744

(1) Net interest income plus noninterest income.

Note 3. Equity method investment

A summary of BHG's financial position as of June 30, 2017 and December 31, 2016 and results of operations as of and for the six months ended June 30, 2017 and 2016, were as follows (in thousands):

	As of June 30, 2017	December 31, 2016
Assets	$253,355	$ 223,246
Liabilities	169,357	139,531
Membership interests	83,998	83,715
Total liabilities and membership	$253,355	$ 223,246

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Revenues	$37,012	$39,330	$71,247	$70,618
Net income	$18,013	$21,439	$34,024	$33,593

At June 30, 2017, technology, trade name and customer relationship intangibles, net of related amortization, totaled $15.1 million compared to $16.8 million as of December 31, 2016. Amortization expense of $832,000 and $1.7 million was included for the three and six months ended June 30, 2017, respectively, compared to $575,000 and $953,000, respectively, for the same periods in the prior year. Accretion income of $767,000 and $1.6 million was included in the three and six months ended June 30, 2017, respectively, compared to $303,000 and $1.2 million for the same periods in the prior year, respectively.

During the three and six months ended June 30, 2017, Pinnacle Financial and Pinnacle Bank received dividends from BHG of $12.5 million and $14.9 million in the aggregate, respectively, compared to $16.5 million and $21.8 million, respectively, for the same periods in the prior year. Earnings from BHG are included in Pinnacle Financial's consolidated tax return. Profits from intercompany transactions are eliminated. No loans were purchased from BHG by Pinnacle Bank for the six-month periods ended June 30, 2017 or June 30, 2016, respectively.

Note 4. Securities

The amortized cost and fair value of securities available-for-sale and held-to-maturity at June 30, 2017 and December 31, 2016 are summarized as follows (in thousands):

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2017:				
Securities available-for-sale:				
U.S. Treasury securities	$250	$ 1	$ —	$251
U.S. government agency securities	62,659	—	759	61,900
Mortgage-backed securities	1,548,758	5,440	15,148	1,539,050
State and municipal securities	532,508	5,209	4,115	533,602
Asset-backed securities	190,560	134	474	190,220
Corporate notes and other	102,016	182	187	102,011
	$2,436,751	$ 10,966	$ 20,683	$2,427,034
Securities held-to-maturity:				
State and municipal securities	$21,163	$ 199	$ 40	$21,322
	$21,163	$ 199	$ 40	$21,322
December 31, 2016:				
Securities available-for-sale:				
U.S. Treasury securities	$250	$—	$ —	$250
U.S. government agency securities	22,306	—	537	21,769
Mortgage-backed securities	988,008	4,304	15,686	976,626
State and municipal securities	211,581	4,103	2,964	212,720
Asset-backed securities	79,318	111	849	78,580
Corporate notes and other	8,608	39	46	8,601
	$1,310,071	$8,557	20,082	$1,298,546
Securities held-to-maturity:				
State and municipal securities	$25,251	$87	$ 105	$25,233
	$25,251	$87	$ 105	$25,233

At June 30, 2017, approximately $1.24 billion of securities within Pinnacle Financial's investment portfolio were pledged to secure either public funds and other deposits or securities sold under agreements to repurchase. At June 30, 2017, repurchase agreements comprised of secured borrowings totaled $205.0 million and were secured by $205.0 million of pledged U.S. government agency securities, municipal securities, asset backed securities, and corporate debentures. As the fair value of securities pledged to secure repurchase agreements may decline, Pinnacle Financial regularly evaluates its need to pledge additional securities to remain adequately secured.

The amortized cost and fair value of debt securities as of June 30, 2017 by contractual maturity are shown below. Actual maturities may differ from contractual maturities of mortgage- and asset-backed securities since the mortgages and assets underlying the securities may be called or prepaid with or without penalty. Therefore, these securities are not included in the maturity categories in the following summary (in thousands):

	Available-for-sale		Held-to-maturity	
June 30, 2017:	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$31,917	$31,811	$1,021	$1,023
Due in one year to five years	82,347	83,312	6,603	6,631
Due in five years to ten years	166,329	168,799	10,219	10,323
Due after ten years	416,840	413,842	3,320	3,345
Mortgage-backed securities	1,548,758	1,539,050	—	—
Asset-backed securities	190,560	190,220	—	—
	$2,436,751	$2,427,034	$21,163	$21,322

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At June 30, 2017 and December 31, 2016, the following investments had unrealized losses. The table below classifies these investments according to the term of the unrealized losses of less than twelve months or twelve months or longer (in thousands):

	Investments with an Unrealized Loss of less than 12 months		Investments with an Unrealized Loss of 12 months or longer		Total Investments with an Unrealized Loss	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At June 30, 2017						
U.S. Treasury securities	$—	$ —	$—	$ —	$—	$ —
U.S. government agency securities	49,120	536	12,780	223	61,900	759
Mortgage-backed securities	1,097,974	13,490	85,658	1,658	1,183,632	15,148
State and municipal securities	324,824	3,379	20,830	776	345,654	4,155
Asset-backed securities	113,296	157	19,153	317	132,449	474
Corporate notes	62,023	187	—	—	62,023	187
Total temporarily-impaired securities	$1,647,237	$ 17,749	$138,421	$ 2,974	$1,785,658	$ 20,723
At December 31, 2016						
U.S. Treasury securities	$—	$ —	$—	$ —	$—	$ —
U.S. government agency securities	—	—	20,820	537	20,820	537
Mortgage-backed securities	801,213	15,073	43,148	613	844,361	15,686
State and municipal securities	87,277	3,068	312	1	87,589	3,069
Asset-backed securities	14,510	32	34,097	817	48,607	849
Corporate notes	4,810	46	—	—	4,810	46
Total temporarily-impaired securities	$907,810	$ 18,219	$98,377	$ 1,968	$1,006,187	$ 20,187

The applicable dates for determining when securities are in an unrealized loss position are June 30, 2017 and December 31, 2016. As such, it is possible that a security had a market value that exceeded its amortized cost on other days during the past twelve-month periods ended June 30, 2017 and December 31, 2016, but is in the "Investments with an Unrealized Loss of less than 12 months" category above.

As shown in the tables above, including both available-for-sale and held-to-maturity investment securities, at June 30, 2017, Pinnacle Financial had approximately $20.7 million in unrealized losses on $1.79 billion of securities. The unrealized losses associated with these investment securities are driven by changes in interest rates and are not due to the credit quality of the securities. These securities will continue to be monitored as a part of Pinnacle Financial's ongoing impairment analysis. Management evaluates the financial performance of the issuers on a quarterly basis to determine if it is probable that the issuers can make all contractual principal and interest payments. Because Pinnacle Financial currently does not intend to sell those securities that have an unrealized loss at June 30, 2017, and it is not more-likely-than-not that Pinnacle Financial will be required to sell the securities before recovery of their amortized cost bases, which may be maturity, Pinnacle Financial does not consider these securities to be other-than-temporarily impaired at June 30, 2017.

Periodically, available-for-sale securities may be sold or the composition of the portfolio realigned to improve yields, quality or marketability, or to implement changes in investment or asset/liability strategy, including maintaining collateral requirements and raising funds for liquidity purposes. Additionally, if an available-for-sale security loses its investment grade or tax-exempt status, the underlying credit support is terminated or collection otherwise becomes uncertain based on factors known to management, Pinnacle Financial will consider selling the security, but will review each security on a case-by-case basis as these factors become known.

The carrying values of Pinnacle Financial's investment securities could decline in the future if the financial condition of issuers deteriorates and management determines it is probable that Pinnacle Financial will not recover the entire amortized cost bases of the securities. As a result, there is a risk that other-than-temporary impairment charges may occur in the future. Additionally, there is a risk that other-than-temporary impairment charges may occur in the future if management's intention to hold these securities to maturity and/or recovery changes.

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Note 5. Loans and Allowance for Loan Losses

For financial reporting purposes, Pinnacle Financial classifies its loan portfolio based on the underlying collateral utilized to secure each loan. This classification is consistent with those utilized in the Quarterly Report of Condition and Income filed with the Federal Deposit Insurance Corporation (FDIC).

Pinnacle Financial uses five loan categories: commercial real estate mortgage, consumer real estate mortgage, construction and land development, commercial and industrial, and consumer and other.

- Commercial real-estate mortgage loans. Commercial real-estate mortgage loans are categorized as such based on investor exposures where repayment is largely dependent upon the operation, refinance, or sale of the underlying real estate. Commercial real-estate mortgage also includes owner occupied commercial real estate which shares a similar risk profile to Pinnacle Financial's commercial and industrial products.
- Consumer real-estate mortgage loans. Consumer real-estate mortgage consists primarily of loans secured by 1-4 residential properties, including home equity lines of credit.
- Construction and land development loans. Construction and land development loans include loans where the repayment is dependent on the successful operation of the related real estate project. Construction and land development loans include 1-4 family construction projects and commercial construction endeavors such as warehouses, apartments, office and retail space and land acquisition and development.
- Commercial and industrial loans. Commercial and industrial loans include loans to business enterprises issued for commercial, industrial and/or other professional purposes.
- Consumer and other loans. Consumer and other loans include all loans issued to individuals not included in the consumer real-estate mortgage classification. Examples of consumer and other loans are automobile loans, credit cards and loans to finance education, among others.

Commercial loans receive risk ratings assigned by a financial advisor and approved by a senior credit officer subject to validation by Pinnacle Financial's independent loan review department. Risk ratings are categorized as pass, special mention, substandard, substandard-nonaccrual or doubtful-nonaccrual. Pinnacle Financial believes that its categories follow those used by Pinnacle Bank's primary regulators. At June 30, 2017, approximately 77% of Pinnacle Financial's loan portfolio was analyzed as a commercial loan type with a specifically assigned risk rating in the allowance for loan loss assessment. Consumer loans and small business loans are generally not assigned an individual risk rating but are evaluated as either accrual or nonaccrual based on the performance of the individual loans. However, certain consumer real-estate mortgage loans and certain consumer and other loans receive a specific risk rating due to the loan proceeds being used for commercial purposes even though the collateral may be of a consumer loan nature.

Risk ratings are subject to continual review by a financial advisor and a senior credit officer. At least annually, Pinnacle Financial's credit procedures require that every risk rated loan of $1.0 million or more be subject to a formal credit risk review process by the assigned financial advisor. Each loan's risk rating is also subject to review by Pinnacle Financial's independent loan review department, which reviews a substantial portion of Pinnacle Financial's risk rated portfolio annually. Included in the coverage are independent loan reviews of loans in targeted higher-risk portfolio segments such as certain commercial and industrial loans, land loans and/or loan types in certain geographies.

The following table presents Pinnacle Financial's loan balances by primary loan classification and the amount within each risk rating category. Pass rated loans include all credits other than those included in special mention, substandard, substandard-nonaccrual and doubtful-nonaccrual which are defined as follows:

- Special mention loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in Pinnacle Financial's credit position at some future date.

- Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize collection of the debt. Substandard loans are characterized by the distinct possibility that Pinnacle Financial will sustain some loss if the deficiencies are not corrected.
- Substandard-nonaccrual loans are substandard loans that have been placed on nonaccrual status.
- Doubtful-nonaccrual loans have all the characteristics of substandard-nonaccrual loans with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

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The following table outlines the amount of each loan classification categorized into each risk rating category as of June 30, 2017 and December 31, 2016 (in thousands):

	Commercial real estate - mortgage	Consumer real estate - mortgage	Construction and land development	Commercial and industrial	Consumer and other	Total
June 30, 2017						
Pass	$6,192,533	$2,449,319	$1,737,057	$3,565,754	$355,314	$14,299,977
Special Mention	112,120	58,928	12,628	36,759	1,432	221,867
Substandard (1)	72,603	26,116	19,241	78,637	108	196,705
Substandard-nonaccrual	10,042	17,810	3,873	7,206	456	39,387
Doubtful-nonaccrual	74	754	—	1	—	829
Total loans	$6,387,372	$2,552,927	$1,772,799	$3,688,357	$357,310	$14,758,765
December 31, 2016						
Pass	$3,137,452	$1,160,361	$897,556	$2,782,713	$264,723	$8,242,805
Special Mention	21,449	1,856	2,716	25,641	802	52,464
Substandard (1)	29,674	15,627	5,788	75,861	129	127,079
Substandard-nonaccrual	4,921	8,073	6,613	7,492	475	27,574
Doubtful-nonaccrual	—	—	—	3	—	3
Total loans	$3,193,496	$1,185,917	$912,673	$2,891,710	$266,129	$8,449,925

(1) Potential problem loans represent those loans with a well-defined weakness and where information about possible credit problems of borrowers has caused management to have doubts about the borrower's ability to comply with present repayment terms. This definition is believed to be substantially consistent with the standards established by Pinnacle Bank's primary regulators for loans classified as substandard, excluding the impact of nonaccrual loans and troubled debt restructurings. Potential problem loans, which are not included in nonaccrual loans, amounted to approximately $182.5 million at June 30, 2017, compared to $114.6 million at December 31, 2016.

The table below details the loans acquired from BNC and the fair value adjustment with respect thereto as of June 30, 2017 (dollars in thousands):

	Commercial real estate - mortgage	Consumer real estate - mortgage	Construction and land development	Commercial and industrial	Consumer and other	Fair value adjustment	Net total acquired loans
June 30, 2017							
Pass	$3,029,203	$1,247,986	$ 699,921	$ 489,340	$ 79,163	$(143,783)	$5,401,830
Special Mention	73,517	58,876	9,385	7,881	678	(5,111)	145,226
Substandard (1)	46,825	14,650	17,717	9,881	—	(16,335)	72,738
Substandard-nonaccrual	9,719	12,302	1,157	1,783	4	(7,257)	17,708
Doubtful-nonaccrual	193	858	—	—	—	(220)	831
Total loans	$3,159,457	$1,334,672	$ 728,180	$ 508,885	$ 79,845	$(172,706)	$5,638,333

Loans acquired with deteriorated credit quality are recorded pursuant to the provisions of ASC 310-30, and are referred to as purchase credit impaired loans. The following table provides a rollforward of purchase credit impaired loans from December 31, 2016 through June 30, 2017 (in thousands):

	Gross Carrying Value	Accretable Yield	Nonaccretable Yield	Net Carrying Value

December 31, 2016	$12,468	$ —	$ (3,633)	$8,835
Acquisitions	75,425	(300)	(25,953)	49,172
Year-to-date settlements	(2,919)	2	796	(2,121)
June 30, 2017	$84,974	$ (298)	$ (28,790)	$55,886

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Certain of these loans have been deemed to be collateral dependent and as such, no accretable yield has been recorded for these loans. The carrying value is adjusted for additional draws, pursuant to contractual arrangements, offset by loan paydowns. Year-to-date settlements include both loans that were charged-off as well as loans that were paid off, typically as a result of refinancings at other institutions.

For the three and six months ended June 30, 2017, the average balance of nonaccrual loans was $26.7 million and $26.7 million, respectively, compared to $37.0 million and $36.6 million, respectively, for the same periods in 2016. Pinnacle Financial's policy is that the discontinuation of the accrual of interest income will occur when (1) there is a significant deterioration in the financial condition of the borrower and full repayment of principal and interest is not expected or (2) the principal or interest is more than 90 days past due, unless the loan is both well secured and in the process of collection. As such, at the date the above mentioned loans were placed on nonaccrual status, Pinnacle Financial reversed all previously accrued interest income against current year earnings. Pinnacle Financial's policy is that once a loan is placed on nonaccrual status each subsequent payment is reviewed on a case-by-case basis to determine if the payment should be applied to interest or principal pursuant to regulatory guidelines. Pinnacle Financial recognized approximately $16,000 and $65,000, respectively, in interest income from cash payments received on nonaccrual loans during the three and six months ended June 30, 2017, compared to approximately $41,000 and $88,000, respectively, during the three and six months ended June 30, 2016. Had these nonaccruing loans been on accruing status, interest income would have been higher by $1.0 million and $1.5 million for the three and six months ended June 30, 2017, respectively, compared to $396,000 and $676,000 for the three and six months ended June 30, 2016, respectively.

The following table details the recorded investment, unpaid principal balance and related allowance of Pinnacle Financial's nonaccrual loans at June 30, 2017 and December 31, 2016 by loan classification (in thousands):

	At June 30, 2017			At December 31, 2016		
	Recorded investment	Unpaid principal balances(1)	Related allowance(2)	Recorded investment	Unpaid principal balances(1)	Related allowance(2)
Collateral dependent nonaccrual loans:						
Commercial real estate – mortgage	$9,532	$ 12,824	$ —	$2,308	$ 2,312	$ —
Consumer real estate – mortgage	14,539	17,508	—	2,880	2,915	—
Construction and land development	1,935	2,192	—	3,128	3,135	—
Commercial and industrial	6,270	7,270	—	6,373	6,407	—
Consumer and other	2	2	—	—	—	—
Total	$32,278	$ 39,796	$ —	$14,689	$ 14,769	$ —
Cash flow dependent nonaccrual loans:						
Commercial real estate – mortgage	$584	$ 810	$ 38	$2,613	$ 3,349	$ 59
Consumer real estate – mortgage	4,025	4,077	941	5,193	5,775	688
Construction and land development	1,938	2,384	22	3,485	4,154	20
Commercial and industrial	938	936	172	1,122	2,714	77
Consumer and other	453	498	232	475	851	227
Total	$7,938	$ 8,705	$ 1,405	$12,888	$ 16,843	$ 1,071
Total nonaccrual loans	$40,216	$ 48,501	$ 1,405	$27,577	$ 31,612	$ 1,071

(1) Unpaid principal balance presented net of fair value adjustments recorded in conjunction with purchase accounting.
(2) Collateral dependent loans are typically charged-off to their net realizable value and no specific allowance is carried related to those loans.

The following table details the average recorded investment and the amount of interest income recognized on a cash basis for the three and six months ended June 30, 2017 and 2016, respectively, on Pinnacle Financial's nonaccrual loans that remain on the balance sheets as of such date (in thousands):

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	For the three months ended June 30,				For the six months ended June 30,			
	2017		2016		2017		2016	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Collateral dependent nonaccrual loans:								
Commercial real estate – mortgage	$4,019	$ —	$3,845	$ —	$3,298	$ —	$3,474	$ —
Consumer real estate – mortgage	6,000	—	4,125	—	5,188	—	4,140	—
Construction and land development	665	16	7,125	41	592	65	7,293	88
Commercial and industrial	6,341	—	12,107	—	6,356	—	11,928	—
Consumer and other	1	—	383	—	—	—	385	—
Total	$17,026	$ 16	$27,585	$ 41	$15,434	$ 65	$27,220	$ 88
Cash flow dependent nonaccrual loans:								
Commercial real estate – mortgage	$619	$ —	$1,352	$ —	$1,166	$ —	$725	$ —
Consumer real estate – mortgage	4,126	—	3,163	—	4,197	—	3,181	—
Construction and land development	1,928	—	130	—	2,119	—	134	—
Commercial and industrial	1,221	—	1,838	—	1,345	—	2,396	—
Consumer and other	1,821	—	2,936	—	2,409	—	2,973	—
Total	$9,715	$ —	$9,419	$ —	$11,236	$ —	$9,409	$ —
Total nonaccrual loans	$26,741	$ 16	$37,004	$ 41	$26,670	$ 65	$36,629	$ 88

At June 30, 2017 and December 31, 2016, there were $14.2 million and $15.0 million, respectively, of troubled debt restructurings that were performing as of their restructure date and which were accruing interest.

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The following table outlines the amount of each loan category where troubled debt restructurings were made during the three and six months ended June 30, 2017 and 2016 (dollars in thousands):

2017	Three months ended June 30, Number of contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, net of related allowance	Six months ended June 30, Number of contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, net of related allowance
Commercial real estate – mortgage	—	$ —	$ —	—	$ —	$ —
Consumer real estate – mortgage	1	9	6	1	9	6
Construction and land development	—	—	—	—	—	—
Commercial and industrial	—	—	—	2	2,033	2,033
Consumer and other	—	—	—	—	—	—
	1	$ 9	$ 6	3	$ 2,042	$ 2,039
2016						
Commercial real estate – mortgage	—	$ —	$ —	—	$ —	$ —
Consumer real estate – mortgage	—	—	—	—	—	—
Construction and land development	—	—	—	—	—	—
Commercial and industrial	—	—	—	1	2,321	1,536
Consumer and other	—	—	—	—	—	—
	—	$ —	$ —	1	$ 2,321	$ 1,536

During the six months ended June 30, 2017 and 2016, Pinnacle Financial did not have any troubled debt restructurings that subsequently defaulted within twelve months of the restructuring.

To monitor concentration risk, Pinnacle Financial utilizes broadly accepted industry classification systems in order to classify borrowers into various industry classifications. Pinnacle Financial has a credit exposure (loans outstanding plus unfunded lines of credit) exceeding 25% of Pinnacle Bank's total risk-based capital to borrowers in the following industries at June 30, 2017 with the comparative exposures for December 31, 2016 (in thousands):

	June 30, 2017 Outstanding Principal Balances	Unfunded Commitments	Total exposure	Total Exposure at December 31, 2016
Lessors of nonresidential buildings	$2,679,712	$ 542,158	$3,221,870	$ 1,701,853
Lessors of residential buildings	879,787	289,682	1,169,469	874,234

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The table below presents past due balances by loan classification and segment at June 30, 2017 and December 31, 2016, allocated between accruing and nonaccrual status (in thousands):

	Accruing					Nonaccruing		
June 30, 2017	30-89 days past due and accruing	90 days or more past due and accruing	Total past due and accruing	Purchased credit impaired	Current and accruing	Nonaccrual [1]	Purchased credit impaired	Total loans
Commercial real estate:								
Owner-occupied	$3,872	$ —	$3,872	$6,545	$2,352,679	$2,249	$3,296	$2,368,641
All other	1,820	—	1,820	11,061	4,001,279	819	3,752	4,018,731
Consumer real estate – mortgage	7,689	—	7,689	9,081	2,517,593	8,133	10,431	2,552,927
Construction and land development	6,250	—	6,250	7,628	1,755,049	1,121	2,751	1,772,799
Commercial and industrial	2,880	1,072	3,952	559	3,676,638	6,429	779	3,688,357
Consumer and other	4,692	619	5,311	—	351,543	453	3	357,310
	$27,203	$ 1,691	$28,894	$34,874	$14,654,781	$19,204	$21,012	$14,758,765
December 31, 2016								
Commercial real estate:								
Owner-occupied	$3,505	$—	$3,505	$—	$1,347,134	$2,297	$1,956	$1,354,893
All other	—	—	—	—	1,837,936	240	428	1,838,603
Consumer real estate – mortgage	3,838	53	3,891	—	1,173,953	5,554	2,520	1,185,917
Construction and land development	2,210	—	2,210	—	903,850	3,205	3,408	912,673
Commercial and industrial	4,475	—	4,475	—	2,879,740	6,971	524	2,891,710
Consumer and other	7,168	1,081	8,249	—	257,405	475	—	266,129
	$21,196	$1,134	$22,330	$—	$8,400,018	$18,742	$8,836	$8,449,925

(1) Approximately $10.0 million and $16.7 million of nonaccrual loans as of June 30, 2017 and December 31, 2016, respectively, were performing pursuant to their contractual terms at those dates.

The following table shows the allowance allocation by loan classification and accrual status at June 30, 2017 and December 31, 2016 (in thousands):

			Impaired Loans					
	Accruing Loans		Nonaccrual Loans		Troubled Debt Restructurings [1]		Total Allowance for Loan Losses	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Commercial real estate –mortgage	$15,963	$ 13,595	$38	$ 59	$ 1	$ 1	$16,002	$ 13,655
Consumer real estate – mortgage	6,891	5,874	941	688	3	2	7,835	6,564
Construction and land development	5,104	3,604	22	20	—	—	5,126	3,624
Commercial and industrial	24,005	24,648	172	77	58	18	24,235	24,743
Consumer and other	7,317	9,293	232	227	—	—	7,549	9,520
Unallocated	—	—	—	—	—	—	1,197	874

	$59,280	$ 57,014	$1,405	$ 1,071	$ 62	$ 21	$61,944	$ 58,980

(1) Troubled debt restructurings of $14.2 million and $15.0 million as of both June 30, 2017 and December 31, 2016, respectively, are classified as impaired loans pursuant to U.S. GAAP; however, these loans continue to accrue interest at contractual rates.

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The following table details the changes in the allowance for loan losses for the three and six months ended June 30, 2017 and 2016, respectively, by loan classification (in thousands):

	Commercial real estate - mortgage	Consumer real estate - mortgage	Construction and land development	Commercial and industrial	Consumer and other	Unallocated	Total
Three months ended June 30, 2017:							
Balance at April 1, 2017	$ 14,168	$ 7,219	$ 4,441	$ 22,912	$ 8,477	$ 1,133	$ 58,350
Charged-off loans	(8)	(206)	—	(495)	(4,448)	—	(5,157)
Recovery of previously charged-off loans	9	412	96	560	862	—	1,939
Provision for loan losses	1,833	410	589	1,258	2,658	64	6,812
Balance at June 30, 2017	$ 16,002	$ 7,835	$ 5,126	$ 24,235	$ 7,549	$ 1,197	$ 61,944
Three months ended June 30, 2016:							
Balance at April 1, 2016	$ 13,551	$ 7,169	$ 3,942	$ 24,144	$ 11,858	$ 1,575	$ 62,239
Charged-off loans	(196)	(180)	—	(619)	(6,151)	—	(7,146)
Recovery of previously charged-off loans	135	71	81	182	570	—	1,039
Provision for loan losses	175	(520)	(100)	1,383	4,861	(519)	5,280
Balance at June 30, 2016	$ 13,665	$ 6,540	$ 3,923	$ 25,090	$ 11,138	$ 1,056	$ 61,412
Six months ended June 30, 2017:							
Balance at December 31, 2016	$ 13,655	$ 6,564	$ 3,624	$ 24,743	$ 9,520	$ 874	$ 58,980
Charged-off loans	(9)	(268)	—	(1,653)	(8,391)	—	(10,321)
Recovery of previously charged-off loans	15	582	129	702	1,394	—	2,822
Provision for loan losses	2,341	957	1,373	443	5,026	323	10,463
Balance at June 30, 2017	$ 16,002	$ 7,835	$ 5,126	$ 24,235	$ 7,549	$ 1,197	$ 61,944
Six months ended June 30, 2016:							
Balance at December 31, 2015	$ 15,513	$ 7,220	$ 2,903	$ 23,643	$ 15,616	$ 537	$ 65,432
Charged-off loans	(196)	(379)	—	(2,243)	(13,555)	—	(16,373)
Recovery of previously charged-off loans	193	156	106	1,615	1,109	—	3,179
Provision for loan losses	(1,845)	(457)	914	2,075	7,968	519	9,174
Balance at June 30, 2016	$ 13,665	$ 6,540	$ 3,923	$ 25,090	$ 11,138	$ 1,056	$ 61,412

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The following table details the allowance for loan losses and recorded investment in loans by loan classification and by impairment evaluation method as of June 30, 2017 and December 31, 2016, respectively (in thousands):

	Commercial real estate - mortgage	Consumer real estate - mortgage	Construction and land development	Commercial and industrial	Consumer and other	Unallocated	Total
June 30, 2017							
Allowance for Loan Losses:							
Collectively evaluated for impairment	$15,963	$6,891	$5,104	$24,005	$7,317	$ 1,197	$60,477
Individually evaluated for impairment	39	944	22	230	232	—	1,467
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—
Total allowance for loan losses	$16,002	$7,835	$5,126	$24,235	$7,549	$ 1,197	$61,944
Loans:							
Collectively evaluated for impairment	$6,359,443	$2,522,372	$1,761,298	$3,669,480	$356,833		$14,669,426
Individually evaluated for impairment	3,275	11,043	1,122	17,536	477		33,453
Loans acquired with deteriorated credit quality	24,654	19,512	10,379	1,341	—		55,886
Total loans	$6,387,372	$2,552,927	$1,772,799	$3,688,357	$357,310		$14,758,765
December 31, 2016							
Allowance for Loan Losses:							
Collectively evaluated for impairment	$13,595	$5,874	$3,604	$24,648	$9,293	$ 874	$57,888
Individually evaluated for impairment	60	690	20	95	227	—	1,092
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—
Total allowance for loan losses	$13,655	$6,564	$3,624	$24,743	$9,520	$ 874	$58,980
Loans:							
Collectively evaluated for impairment	$3,188,362	$1,174,456	$906,053	$2,872,855	$265,613		$8,407,339
Individually evaluated for impairment	2,750	8,941	3,212	18,331	516		33,750
Loans acquired with deteriorated credit quality	2,384	2,520	3,408	524	—		8,836
Total loans	$3,193,496	$1,185,917	$912,673	$2,891,710	$266,129		$8,449,925

The adequacy of the allowance for loan losses is assessed at the end of each calendar quarter. The level of the allowance is based upon evaluation of the loan portfolio, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, historical loss experience, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations. The allowance for loan losses for purchased loans is calculated similarly to the method utilized for legacy Pinnacle Bank loans. Pinnacle Financial's accounting policy is to compare the computed allowance for loan losses for purchased loans on a loan-by-loan basis to any remaining fair value adjustment. If the computed allowance is greater than the remaining fair value adjustment, the excess is added to the allowance for loan losses by a charge to the provision for loan losses.

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At June 30, 2017, Pinnacle Bank had granted loans and other extensions of credit amounting to approximately $25.8 million to current directors, executive officers, and their related entities, of which $17.2 million had been drawn upon. At December 31, 2016, Pinnacle Bank had granted loans and other extensions of credit amounting to approximately $22.6 million to directors, executive officers, and their related entities, of which approximately $14.8 million had been drawn upon. None of these loans to directors, executive officers, and their related entities were impaired at June 30, 2017 or December 31, 2016.

At June 30, 2017, Pinnacle Financial had approximately $11.4 million in commercial loans held for sale, which included loans previously held in Pinnacle Bank's commercial loan portfolio that it has elected to sell as well apartment loans originated for sale to a third-party as part of a multi-family loan program. Such loans are closed under a pass-through commitment structure wherein Pinnacle Bank's loan commitment to the borrower is the same as the third party's take-out commitment to Pinnacle Bank, and the third party purchase typically occurs within thirty days of Pinnacle Bank closing with the borrowers.

Residential Lending

At June 30, 2017, Pinnacle Financial had approximately $90.3 million of mortgage loans held-for-sale compared to approximately $47.7 million at December 31, 2016. Total loan volumes sold during the six months ended June 30, 2017 were approximately $262.0 million compared to approximately $198.2 million for the six months ended June 30, 2016. During the six months ended June 30, 2017, Pinnacle Financial recognized $8.8 million in gains on the sale of these loans, net of commissions paid, compared to $7.8 million during the six months ended June 30, 2016.

These mortgage loans held-for-sale are originated internally and are primarily to borrowers in Pinnacle Bank's geographic markets. These sales are typically on a mandatory basis to investors that follow conventional government sponsored entities (GSE) and the Department of Housing and Urban Development/U.S. Department of Veterans Affairs (HUD/VA) guidelines.

Each purchaser of a mortgage loan held-for-sale has specific guidelines and criteria for sellers of loans, and the risk of credit loss with regard to the principal amount of the loans sold is generally transferred to the purchasers upon sale. While the loans are sold without recourse, the purchase agreements require Pinnacle Bank to make certain representations and warranties regarding the existence and sufficiency of file documentation and the absence of fraud by borrowers or other third parties such as appraisers in connection with obtaining the loan. If it is determined that the loans sold were in breach of these representations or warranties, Pinnacle Bank has obligations to either repurchase the loan for the unpaid principal balance and related investor fees or make the purchaser whole for the economic benefits of the loan. To date, repurchase activity pursuant to the terms of these representations and warranties has been insignificant to Pinnacle Bank.

Note 6. Income Taxes

ASC 740, Income Taxes, defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. This section also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties, and includes guidance concerning accounting for income tax uncertainties in interim periods.

The unrecognized tax benefit related to uncertain tax positions related to state income tax filings was $1.3 million at June 30, 2017 compared to $196,000 at June 30, 2016. No change was recorded to the unrecognized tax benefit related to uncertain tax positions in each of the three and six month periods ended June 30, 2017 and 2016.

Pinnacle Financial's policy is to recognize interest and/or penalties related to income tax matters in income tax expense. The total amount of interest and penalties recorded in the income statement for the three and six months ended June 30, 2017 was $3,600 and $22,000, respectively, compared to no interest and penalties for the three and six months ended June 30, 2016.

Pinnacle Financial's effective tax rate for the three and six months ended June 30, 2017 was 31.7% and 29.0%, respectively, compared to 33.9% and 33.5% for the three and six months ended June 30, 2016. The difference between the effective tax rate and the federal and state income tax statutory rate of 39.23% is primarily due to state excise tax expense, investments in bank qualified municipal securities, tax benefits of Pinnacle Financial's real estate investment trust subsidiary, participation in the Community Investment Tax Credit (CITC) program, and tax benefits associated with share-based compensation, bank-owned life insurance and our captive insurance subsidiary, offset in part by the limitation on deductibility