EXPRESS-1 EXPEDITED SOLUTIONS INC
Form 8-K
February 08, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 8, 2010

EXPRESS-1 EXPEDITED SOLUTIONS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**001-32172**	**03-0450326**
(State or other jurisdiction of incorporation or organization)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**

3399 Lakeshore Drive, Suite 225, Saint Joseph, Michigan, 49085
(Address of principal executive offices – zip code)

(269) 429-9761
(Registrant's telephone number, including area code)

Not applicable
(former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On February 8, 2010, Express-1 Expedited Solutions, Inc. issued a press release reporting its preliminary financial results for the quarter ended December 31, 2009. A copy of the release is furnished as Exhibit 99.1.

The information furnished herein, including Exhibit 99.1, is not deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. This information will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates them by reference.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

Exhibit No.	Exhibit Description
99.1	Press Release dated February 8, 2010.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated	February 8, 2010	Express-1 Expedited Solutions, Inc.

By: /s/ Mike Welch
Mike Welch
Chief Executive Officer

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Number
of contracts

Pre Modification Outstanding Recorded Investment

Post Modification Outstanding Recorded Investment, net of related allowance

Number
of contracts

Pre Modification Outstanding Recorded Investment

Post Modification Outstanding Recorded Investment, net of related allowance
Commercial real estate – mortgage
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—

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—

$
—

Consumer real estate – mortgage
1

38

38

1

38

38

Construction and land development
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Commercial and industrial
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Consumer and other
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2017

Commercial real estate – mortgage
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Consumer real estate – mortgage
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1

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Construction and land development
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Commercial and industrial
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2,033

Consumer and other
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$
6

3

$
2,042

$
2,039

During the six months ended June 30, 2018 and 2017, Pinnacle Financial did not have any troubled debt restructurings that subsequently defaulted within twelve months of the restructuring.

At both June 30, 2018 and December 31, 2017, the allowance for loan losses included no allowance specifically related to accruing troubled debt restructurings, which are classified as impaired loans pursuant to U.S. GAAP, but which loans continued to accrue interest at contractual rates at those dates.

In addition to the loan metrics above, Pinnacle Financial analyzes its commercial loan portfolio to determine if a concentration of credit risk exists to any industries. 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, 2018 with the comparative exposures for December 31, 2017 (in thousands):

	June 30, 2018			
	Outstanding Principal Balances	Unfunded Commitments	Total exposure	Total Exposure at December 31, 2017
Lessors of nonresidential buildings	$3,096,519	$ 668,891	$3,765,410	$ 3,483,597
Lessors of residential buildings	981,328	283,888	1,265,216	1,151,676
Hotels (except Casino Hotels) and Motels	723,347	167,577	890,924	836,320
New Housing For-Sale Builders	374,653	593,400	968,053	780,137

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Additionally, Pinnacle Financial monitors two ratios regarding construction and commercial real estate lending as part of its concentration management processes. Both ratios are calculated by dividing certain types of loan balances for each of the two categories by Pinnacle Bank's total risk-based capital. At June 30, 2018 and December 31, 2017, Pinnacle Bank's construction and land development loans as a percentage of total risk-based capital were 94.6% and 89.4%, respectively. Non-owner occupied commercial real estate and multifamily loans (including construction and land development loans) as a percentage of total risk-based capital were 304.3% and 297.1% as of June 30, 2018 and December 31, 2017, respectively. Banking regulations have established guidelines for the construction ratio of less than 100% of total risk-based capital and for the non-owner occupied ratio of less than 300% of total risk-based capital. When a bank's ratios are in excess of one or both of these guidelines, banking regulations generally require an increased level of monitoring in these lending areas by bank management. At June 30, 2018, Pinnacle Bank slightly exceeded the 300% guideline and has established what it believes to be appropriate controls to monitor Pinnacle Bank's lending in this area.

The table below presents past due balances by loan classification and segment at June 30, 2018 and December 31, 2017, allocated between accruing and nonaccrual status (in thousands):

	Accruing					Nonaccruing		
June 30, 2018	30-89 days past due and accruing	90 days or more past due and accruing	Total past due and accruing	Current and accruing	Purchase credit impaired	Nonaccrual (1)	Nonaccruing purchase credit impaired	Total loans
Commercial real estate:								
Owner-occupied	$2,132	$ —	$2,132	$2,474,296	$3,424	$22,874	$ 2,164	$2,504,890
All other	7,017	—	7,017	4,495,948	11,539	2,274	2,971	4,519,749
Consumer real estate – mortgage	14,093	—	14,093	2,660,129	4,285	14,776	6,116	2,699,399
Construction and land development	2,725	—	2,725	2,125,629	3,264	662	1,366	2,133,646
Commercial and industrial	5,755	875	6,630	4,797,371	480	16,767	51	4,821,299
Consumer and other	5,088	697	5,785	357,221	—	863	1	363,870
Total	$36,810	$ 1,572	$38,382	$16,910,594	$22,992	$58,216	$ 12,669	$17,042,853
December 31, 2017								
Commercial real estate:								
Owner-occupied	$6,772	$104	$6,876	$2,435,819	$4,820	$11,395	$1,105	$2,460,015
All other	16,559	—	16,559	4,177,454	12,018	704	2,860	4,209,595
Consumer real estate – mortgage	14,835	1,265	16,100	2,521,748	5,249	9,320	8,797	2,561,214
Construction and land development	4,136	146	4,282	1,894,560	3,478	2,878	3,090	1,908,288
Commercial and industrial	7,406	1,348	8,754	4,114,127	1,154	17,222	84	4,141,341
Consumer and other	6,311	1,276	7,587	345,076	—	—	—	352,663
Total	$56,019	$4,139	$60,158	$15,488,784	$26,719	$41,519	$15,936	$15,633,116

(1) Approximately $54.4 million and $45.8 million of nonaccrual loans as of June 30, 2018 and December 31, 2017, respectively, were performing pursuant to their contractual terms at those dates.

The following table details the changes in the allowance for loan losses for the three and six months ended June 30, 2018 and 2017, respectively, by loan classification (in thousands):

	Commercial real estate - mortgage	Consumer real estate -	Construction and land development	Commercial and industrial	Consumer and other	Unallocated	Total

		mortgage					
Three months ended June 30, 2018:							
Balance at March 31, 2018	$ 22,688	$ 5,100	$ 10,116	$ 26,648	$ 5,476	$ 176	$ 70,204
Charged-off loans	(234)	(935)	(10)	(1,724)	(3,795)	—	(6,698)
Recovery of previously charged-off loans	58	537	1,010	567	590	—	2,762
Provision for loan losses	2,336	1,151	(132)	2,847	2,901	299	9,402
Balance at June 30, 2018	$ 24,848	$ 5,853	$ 10,984	$ 28,338	$ 5,172	$ 475	$ 75,670

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	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 March 31, 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
Six months ended June 30, 2018:							
Balance at December 31, 2017	$ 21,188	$ 5,031	$ 8,962	$ 24,863	$ 5,874	$ 1,322	$ 67,240
Charged-off loans	(962)	(1,271)	(12)	(4,264)	(8,858)	—	(15,367)
Recovery of previously charged-off loans	1,454	1,203	1,575	1,455	1,777	—	7,464
Provision for loan losses	3,168	890	459	6,284	6,379	(847)	16,333
Balance at June 30, 2018	$ 24,848	$ 5,853	$ 10,984	$ 28,338	$ 5,172	$ 475	$ 75,670
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

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, 2018 and December 31, 2017, 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, 2018							
Allowance for Loan Losses:							
Collectively evaluated for impairment	$ 23,394	$ 5,323	$ 10,944	$ 27,748	$ 4,990		$ 72,399
Individually evaluated for impairment	1,092	433	33	588	182		2,328
Loans acquired with deteriorated credit quality (1)	362	97	7	2	—		468
Total allowance for loan losses	$ 24,848	$ 5,853	$ 10,984	$ 28,338	$ 5,172	$ 475	$ 75,670
Loans:							
Collectively evaluated for impairment	$ 6,965,272	$ 2,671,404	$ 2,127,279	$ 4,799,396	$ 363,007		$ 16,926,358
Individually evaluated for impairment	39,268	17,593	1,737	21,371	863		80,832
	20,099	10,402	4,630	532	—		35,663

Loans acquired with deteriorated credit quality							
Total loans	$7,024,639	$2,699,399	$2,133,646	$4,821,299	$363,870		$17,042,853
December 31, 2017							
Allowance for Loan Losses:							
Collectively evaluated for impairment	$20,753	$4,460	$8,879	$23,181	$5,874		$63,147
Individually evaluated for impairment	95	410	66	1,627	—		2,198
Loans acquired with deteriorated credit quality(1)	340	161	17	55	—		573
Total allowance for loan losses	$21,188	$5,031	$8,962	$24,863	$5,874	$ 1,322	$67,240
Loans:							
Collectively evaluated for impairment	$6,630,593	$2,534,996	$1,896,553	$4,116,677	$352,663		$15,531,482
Individually evaluated for impairment	18,214	12,172	5,167	23,426	—		58,979
Loans acquired with deteriorated credit quality	20,803	14,046	6,568	1,238	—		42,655
Total loans	$6,669,610	$2,561,214	$1,908,288	$4,141,341	$352,663		$15,633,116

(1) Loans acquired with deteriorated credit quality are recorded at fair value at the time of acquisition. An allowance for loan losses is recorded resulting from subsequent credit deterioration.

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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.

At June 30, 2018, Pinnacle Bank had granted loans and other extensions of credit amounting to approximately $24.4 million to current directors, executive officers, and their related entities, of which $13.4 million had been drawn upon. At December 31, 2017, Pinnacle Bank had granted loans and other extensions of credit amounting to approximately $26.4 million to directors, executive officers, and their related entities, of which approximately $16.1 million had been drawn upon. None of these loans to directors, executive officers, and their related entities were impaired at June 30, 2018 or December 31, 2017.

At June 30, 2018, Pinnacle Financial had approximately $21.3 million in commercial loans held for sale compared to $25.5 million at December 31, 2017, which primarily included commercial real estate and 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, 2018, Pinnacle Financial had approximately $106.8 million of mortgage loans held-for-sale compared to approximately $102.7 million at December 31, 2017. Total loan volumes sold during the six months ended June 30, 2018 were approximately $636.7 million compared to approximately $422.7 million for the six months ended June 30, 2017. During the three and six months ended June 30, 2018, Pinnacle Financial recognized $3.8 million and $7.5 million, respectively, in gains on the sale of these loans, net of commissions paid, compared to $4.7 million and $8.8 million, respectively, net of commissions paid, during the three and six months ended June 30, 2017.

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, Pinnacle Bank's liability 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 $2.8 million at June 30, 2018 compared to $1.3 million at June 30, 2017. 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, 2018 and 2017.

Pinnacle Financial's policy is to recognize interest and/or penalties related to income tax matters in income tax expense. For both the three and six months ended June 30, 2018 there were no interest and penalties recorded in the income statement compared to $3,600 and $22,000, respectively, in interest and penalties for the three and six months ended June 30, 2017.

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Pinnacle Financial's effective tax rate for the three and six months ended June 30, 2018 was 20.9% and 20.0%, respectively, compared to 31.7% and 29.0%, respectively, for the three and six months ended June 30, 2017, primarily due to the reduction in the statutory corporate tax rate following the enactment of the Tax Cuts and Jobs Act in December 2017. The difference between the effective tax rate and the federal and state income tax statutory rate of 26.14% at June 30, 2018 and 39.23% at June 30, 2017 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 Tennessee 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 of meals and entertainment expense and FDIC premiums.

Additionally, 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. The guidance became effective for Pinnacle Financial on January 1, 2017. Included in income tax expense for the three and six months ended June 30, 2018 were excess tax benefits of $72,000 and $2.8 million, respectively, recognized upon the lapse of restrictions on stock awards and stock options exercises, compared to $789,000 and $4.6 million, respectively, for the three and six months ended June 30, 2017.

Note 7. Commitments and Contingent Liabilities

In the normal course of business, Pinnacle Bank has entered into off-balance sheet financial instruments which include commitments to extend credit (i.e., including unfunded lines of credit) and standby letters of credit. Commitments to extend credit are usually the result of lines of credit granted to existing borrowers under agreements that the total outstanding indebtedness will not exceed a specific amount during the term of the indebtedness. Typical borrowers are commercial concerns that use lines of credit to supplement their treasury management functions, and thus their total outstanding indebtedness may fluctuate during any time period based on the seasonality of their business and the resultant timing of their cash flows. Other typical lines of credit are related to home equity loans granted to consumers. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At June 30, 2018, these commitments amounted to $6.32 billion, of which approximately $926.8 million related to home equity lines of credit.

Standby letters of credit are generally issued on behalf of an applicant (Pinnacle Bank's customer) to a specifically named beneficiary and are the result of a particular business arrangement that exists between the applicant and the beneficiary. Standby letters of credit have fixed expiration dates and are usually for terms of two years or less unless terminated beforehand due to criteria specified in the standby letter of credit. A typical arrangement involves the applicant routinely being indebted to the beneficiary for such items as inventory purchases, insurance, utilities, lease guarantees or other third party commercial transactions. The standby letter of credit would permit the beneficiary to obtain payment from Pinnacle Bank under certain prescribed circumstances. Subsequently, Pinnacle Bank would then seek reimbursement from the applicant pursuant to the terms of the standby letter of credit. At June 30, 2018, these commitments amounted to $175.9 million.

Pinnacle Bank typically follows the same credit policies and underwriting practices when making these commitments as it does for on-balance sheet instruments. Each customer's creditworthiness is typically evaluated on a case-by-case basis, and the amount of collateral obtained, if any, is based on management's credit evaluation of the customer. Collateral held varies but may include cash, real estate and improvements, marketable securities, accounts receivable, inventory, equipment and personal property.

The contractual amounts of these commitments are not reflected in the consolidated financial statements and only amounts drawn upon would be reflected in the future. Since many of the commitments are expected to expire without being drawn upon, the contractual amounts do not necessarily represent future cash requirements. However, should the commitments be drawn upon and should Pinnacle Bank's customers default on their resulting obligation to Pinnacle Bank, the maximum exposure to credit loss, without consideration of collateral, is represented by the contractual amount of those commitments. At June 30, 2018, Pinnacle Financial had accrued $2.9 million for the inherent risks associated with these off-balance sheet commitments compared to $3.1 million at December 31, 2017.

Various legal claims also arise from time to time in the normal course of business. In the opinion of management, the resolution of these claims outstanding at June 30, 2018 will not have a material adverse impact on Pinnacle Financial's consolidated financial condition, operating results or cash flows.

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Note 8. Stock Options and Restricted Shares

At Pinnacle Financial's annual shareholders' meeting on April 17, 2018, the shareholders of Pinnacle Financial adopted the 2018 Omnibus Equity Incentive Plan (the "2018 Plan"). The 2018 Plan subsumed the then existing Pinnacle Financial Partners, Inc. 2014 Equity Incentive Plan (the "2014 Plan") including the approximately 500,000 shares in the aggregate that remained available for issuance thereunder on the date the 2018 Plan was approved by shareholders and increased the maximum number of shares of common stock that may be issued to associates, directors and contractors of Pinnacle Financial and Pinnacle Bank by an additional 1.2 million shares. The 2018 Plan permits Pinnacle Financial to reissue outstanding awards that are subsequently forfeited, settled in cash, withheld by Pinnacle Financial to cover withholding taxes or expire unexercised and returned to the 2018 Plan.

The BNC Bancorp 2013 Amended and Restated Omnibus Stock Incentive Plan (the "BNC Plan") was assumed by Pinnacle Financial in connection with the BNC Merger. As of June 30, 2018, the BNC Plan had approximately 9,000 shares remaining available for issuance to existing associates that were previously BNC associates in future periods. No new awards may be granted under plans other than the 2018 Plan except for shares remaining available for issuance to the former BNC associates pursuant to the BNC Plan.

Upon the acquisition of CapitalMark, Pinnacle Financial assumed approximately 858,000 stock options under the CapitalMark Option Plan. No further shares remain available for issuance under the CapitalMark Option Plan. No options were assumed upon the acquisition of Magna, Avenue or BNC as all preexisting Magna, Avenue and BNC stock options were converted to cash upon acquisition. At June 30, 2018, all of the remaining options outstanding were granted under the CapitalMark Option Plan.

Common Stock Options

A summary of the stock option activity within the equity incentive plans during the six months ended June 30, 2018 and information regarding expected vesting, contractual terms remaining, intrinsic values and other matters is as follows:

	Number	Weighted-Average Exercise Price	Weighted-Average Contractual Remaining Term (in years)	Aggregate Intrinsic Value (000's)	
Outstanding at December 31, 2017	274,586	$ 21.40	3.06	$ 12,329	(1)
Granted	—				
Exercised	(90,397)				
Forfeited	—				
Outstanding at June 30, 2018	184,189	$ 22.67	3.79	$ 7,124	(2)
Options exercisable at June 30, 2018	184,189	$ 22.67	3.79	$ 7,124	(2)

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted closing price of Pinnacle Financial common stock of $66.30 per common share at December 31, 2017 for the 274,586 options that were in-the-money at December 31, 2017.

(2) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted closing price of Pinnacle Financial common stock of $61.35 per common share at June 30, 2018 for the 184,189 options that were in-the-money at June 30, 2018.

Compensation costs related to stock options granted under Pinnacle Financial's equity incentive plans have been fully recognized and all outstanding option awards are fully vested.

Restricted Share Awards

A summary of activity for unvested restricted share awards for the six months ended June 30, 2018 is as follows:

	Number	Grant Date Weighted-Average Cost
Unvested at December 31, 2017	936,135	$ 50.08
Shares awarded	135,073	
Conversion of previously awarded restricted share units to restricted share awards	6,200	
Restrictions lapsed and shares released to associates/directors	(315,444)	
Shares forfeited [1]	(22,133)	
Unvested at June 30, 2018	739,831	$ 55.02

(1) Represents shares forfeited due to employee termination and/or retirement. No shares were forfeited due to failure to meet performance targets.

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Pinnacle Financial has granted restricted share awards to associates, senior management and outside directors with a combination of time and, in the case of senior management, performance vesting criteria. The following table outlines restricted stock grants that were awarded, grouped by similar vesting criteria, during the six months ended June 30, 2018:

Grant Year	Group (1)	Vesting Period in years	Shares awarded	Restrictions Lapsed and shares released to participants	Shares Forfeited by participants (6)	Shares Unvested
Time Based Awards						
2018	Associates (2)	3 - 5	102,224	276	2,077	99,871
2018	Associates (3)	3 - 5	16,777	—	500	16,277
Performance Based Awards						
2018	Leadership team (4)	3	6,200	4,340	1,860	—
Outside Director Awards (5)						
2018	Outside directors	1	16,072	1,148	—	14,924

(1) Groups include employees (referred to as associates above), the leadership team which includes our named executive officers and other key senior leadership members, and outside directors. When the restricted shares are awarded, a participant receives voting rights and forfeitable dividend rights with respect to the shares, but is not able to transfer the shares until the restrictions have lapsed. Once the restrictions lapse, the participant is taxed on the value of the award and may elect to sell some shares (or have Pinnacle Financial withhold some shares) to pay the applicable income taxes associated with the award. For time-based vesting restricted share awards, dividends paid on shares for which the forfeiture restrictions do not lapse will be recouped by Pinnacle Financial at the time of termination. For performance-based vesting awards and time-based vesting awards to Pinnacle Financial's executive officers, dividends are placed into escrow until the forfeiture restrictions on such shares lapse.

(2) The forfeiture restrictions on these restricted share awards lapse in equal annual installments on the anniversary date of the grant.

(3) Restricted share awards issued to associates that were former associates of BNC pursuant to legacy BNC incentive plans assumed by Pinnacle Financial.

(4) Reflects conversion of restricted share units issued in prior years to restricted share awards. The forfeiture restrictions on these restricted share awards lapse in separate equal installments should Pinnacle Financial achieve certain soundness targets over each year of the subsequent vesting period. See further details of these awards under the caption "Restricted Share Units" below.

(5) Restricted share awards are issued to the outside members of the board of directors in accordance with their board compensation plan. Restrictions lapse on February 28, 2019 based on each individual board member meeting their attendance goals for the various board and board committee meetings to which each member was scheduled to attend.

(6) These shares represent forfeitures resulting from recipients whose employment or board membership is terminated during the year-to-date period ended June 30, 2018. Any dividends paid on shares for which the forfeiture restrictions do not lapse will be recouped by Pinnacle Financial at the time of termination or will not be distributed from escrow, as applicable.

Restricted Share Units

The following table details the restricted share unit awards outstanding at June 30, 2018:

	Units Awarded					
Grant year	Named Executive Officers (NEOs) (1)	Leadership Team other than NEOs	Applicable Performance Periods associated with each tranche (fiscal year)	Service period per tranche (in years)	Subsequent holding period per tranche (in years)	Shares settled into RSAs as of period end (2)
2018	96,878-145,339	25,990	2018	2	3	N/A
			2019	2	2	N/A
			2020	2	1	N/A
2017	72,537-109,339	24,916	2017	2	3	N/A
			2018	2	2	N/A
			2019	2	1	N/A
2016	73,474-110,223	26,683	2016	2	3	N/A
			2017	2	2	N/A
			2018	2	1	N/A
2015	58,200-101,850	28,378	2015	2	3	N/A
			2016	2	2	N/A
			2017	2	1	N/A

(1) The named executive officers are awarded a range of awards that may be earned based on attainment of goals between a target level of performance and a maximum level of performance.

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(2) Restricted share unit awards granted in 2018, 2017, 2016 and 2015 will be earned if certain performance targets (and service periods) are achieved. Additional forfeiture restrictions may lapse based on Pinnacle Financial's attainment of certain soundness thresholds in future periods and thereafter the unit awards will be settled in shares of Pinnacle Financial common stock.

Stock compensation expense related to restricted share awards and restricted share units for the three and six months ended June 30, 2018 was $4.3 million and $8.8 million, respectively, compared to $5.2 million and $8.6 million for the three and six months ended June 30, 2017.

Note 9. Derivative Instruments

Financial derivatives are reported at fair value in other assets or other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated as hedges, the gain or loss is recognized in current period earnings.

Non-hedge derivatives

Pinnacle Financial enters into interest rate swaps (swaps) to facilitate customer transactions and meet their financing needs. Upon entering into these instruments to meet customer needs, Pinnacle Financial enters into offsetting positions in order to minimize the risk to Pinnacle Financial. These swaps are derivatives, but are not designated as hedging instruments. A summary of Pinnacle Financial's interest rate swaps related to customers as of June 30, 2018 and December 31, 2017 is included in the following table (in thousands):

		June 30, 2018		December 31, 2017	
	Balance Sheet Location	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Interest rate swap agreements:					
Pay fixed / receive variable swaps	Other assets	$818,797	$21,300	$748,625	$13,771
Pay variable / receive fixed swaps	Other liabilities	818,797	(23,349)	748,625	(13,866)
Cash settlements	Other assets	—	1,920	—	—
Total		$1,637,594	$(129)	$1,497,250	$(95)

	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2018	2017	2018	2017
Interest rate swap agreements	Other noninterest income	$ (14)	$ 1	$ (34)	$ 13

Derivatives designated as cash flow hedges

For derivative instruments that are designated and qualify as a cash flow hedge, the aggregate fair value of the derivative instrument is recorded in other assets or other liabilities with any gain or loss related to changes in fair value recorded in accumulated other comprehensive income, net of tax. The gain or loss is reclassified into earnings in the same period during which the hedged asset or liability affects earnings and is presented in the same income statement line item as the earnings effect of the hedged asset or liability. Pinnacle Financial uses forward cash flow hedge relationships in an effort to manage future interest rate exposure. The hedging strategy converts the

LIBOR-based variable interest rate on forecasted borrowings to a fixed interest rate and is used in an effort to protect Pinnacle Financial from floating interest rate variability. A summary of Pinnacle Financial's cash flow hedge relationships as of June 30, 2018 and December 31, 2017 are as follows (in thousands):

					June 30, 2018		December 31, 2017	
	Balance Sheet Location	Weighted Average Remaining Maturity (In Years)	Weighted Average Pay Rate	Receive Rate	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Asset derivatives								
Interest rate swap agreements	Other assets	2.60	2.48%	3 month LIBOR	$101,000	$618	$—	$—
Liability derivatives								
Interest rate swap agreements	Other assets	3.85	3.09%	3 month LIBOR	$99,000	$(1,005)	$200,000	$(4,583)

The effects of Pinnacle Financial's cash flow hedge relationships on the statement of comprehensive income (loss) during the three and six months ended June 30, 2018 and 2017 were as follows:

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	Amount of Gain (Loss) Recognized in Other Comprehensive Income			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest rate swap agreements	$950	$1,161	$2,670	$1,068

The cash flow hedges were determined to be highly effective during the periods presented and as a result qualify for hedge accounting treatment. If a hedge was deemed to be ineffective, the amount included in accumulated other comprehensive (loss) income would be reclassified into a line item within the statement of income that impacts operating results. The hedge would no longer be considered effective if a portion of the hedge becomes ineffective, the item hedged is no longer in existence or Pinnacle Financial discontinues hedge accounting. Pinnacle Financial expects the hedges to continue to be highly effective and qualify for hedge accounting during the remaining terms of the swaps. No amounts were reclassified from accumulated other comprehensive income into net income related to these derivatives during the six months ended June 30, 2018 or 2017, and no amounts are expected to be reclassified from accumulated other comprehensive income into net income over the next twelve months.

Derivatives designated as fair value hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged asset or liability attributable to the hedged risk are recognized in current earnings. The gain or loss on the derivative instrument is presented on the same income statement line item as the earnings effect of the hedged item. Pinnacle Financial utilizes interest rate swaps designated as fair value hedges to mitigate the effect of changing interest rates on the fair values of fixed rate callable securities available-for-sale and fixed rate prepayable loans. The hedging strategy on securities converts the fixed interest rates to LIBOR-based variable interest rates. These derivatives are designated as partial term hedges of selected cash flows covering specified periods of time prior to the call dates of the hedged securities. Pinnacle Financial has elected early adoption of FASB ASU 2017-12, which allows such partial term hedge designations. Pinnacle Financial also utilizes interest rate swaps designated as fair value hedges to mitigate the effect of changing interest rates on the fair values of the loans. As allowed under FASB ASU 2017-12, a specified portion of the prepayable loans have been designated as the hedged assets under the "last-of-layer" method. Such hedging designations are allowed on the portion of a closed portfolio of prepayable assets that is not expected to be affected by prepayments, defaults, and other factors affecting the timing and amount of cash flows.

A summary of Pinnacle Financial's fair value hedge relationships as of June 30, 2018 and December 31, 2017 are as follows (in thousands):

					June 30, 2018		December 31, 2017	
	Balance Sheet Location	Weighted Average Remaining Maturity (In Years)	Weighted Average Pay Rate	Receive Rate	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Asset derivatives								
Interest rate swap agreements - securities	Other assets	7.39	2.89%	3 month LIBOR	$154,145	$ 236	$ —	$ —
	Other assets	2.76	2.79%		525,000	1,122	—	—

Interest rate swap agreements - loans	3.81	2.82%	3 month LIBOR	$679,145	$ 1,358	$	—$	—

The effects of Pinnacle Financial's fair value hedge relationships on the income statement during the three and six months ended June 30, 2018 and 2017 were as follows:

	Location of Gain (Loss) on Derivative	Amount of Gain (Loss) Recognized in Income			
		Three Months Ended June 30,		Six Months Ended June 30,	
Asset derivatives		2018	2017	2018	2017
Interest rate swap agreements - securities	Interest income on securities	$(1,343)	$ —	$236	$ —
Interest rate swap agreements - loans	Interest income on loans	$1,122	$ —	$1,122	$ —

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	Location of Gain (Loss) on Hedged Item	Amount of Gain (Loss) Recognized in Income			
		Three Months Ended June 30,		Six Months Ended June 30,	
Asset derivatives		2018	2017	2018	2017
Interest rate swap agreements - securities	Interest income on securities	$1,343	$ —	$(236)	$ —
Interest rate swap agreements - loans	Interest income on loans	$(1,122)	$ —	$(1,122)	$ —

The following amounts were recorded on the balance sheet related to cumulative basis adjustments for fair value hedges at June 30, 2018 and December 31, 2017:

	Carrying Amount of the Hedged Assets		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Line item on the balance sheet				
Securities available-for-sale	$153,543	$ —	$(236)	$ —
Loans [(1)]	$523,878	$ —	$(1,122)	$ —

(1) The carrying amount as shown represents the designated last-of-layer. At June 30, 2018, the total amortized cost basis of the closed portfolio of loans designated in this hedging relationship was $1.7 billion.

On July 25, 2018, Pinnacle Financial entered into an additional swap transaction with a notional amount of $375 million designated as fair value hedges. These derivatives are intended to protect against the effects of changing interest rates on the fair values of fixed rate prepayable loans. As allowed under FASB ASU 2017-12, a specified portion of the prepayable loans have been designated as the hedged assets under the "last-of-layer" method. Such hedging designations are allowed on the portion of a closed portfolio of prepayable assets that is not expected to be affected by prepayments, defaults, and other factors affecting the timing and amount of cash flows.

Note 10. Fair Value of Financial Instruments

FASB ASC 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements. The definition of fair value focuses on the exit price, i.e., the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not the entry price, i.e., the price that would be paid to acquire the asset or received to assume the liability at the measurement date. The statement emphasizes that fair value is a market-based measurement; not an entity-specific measurement. Therefore, the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

Valuation Hierarchy

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

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Assets

Securities available-for-sale – Where quoted prices are available for identical securities in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other financial products. If quoted market prices are not available, then fair values are estimated by using pricing models that use observable inputs or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation and more complex pricing models or discounted cash flows are used, securities are classified within Level 3 of the valuation hierarchy.

Other investments – Included in other investments are investments recorded at fair value primarily in certain nonpublic investments and funds. The valuation of these nonpublic investments requires management judgment due to the absence of observable quoted market prices, inherent lack of liquidity and the long-term nature of such assets. These investments are valued initially based upon transaction price. The carrying values of other investments are adjusted either upwards or downwards from the transaction price to reflect expected exit values as evidenced by financing and sale transactions with third parties, or when determination of a valuation adjustment is confirmed through ongoing reviews by senior investment managers. A variety of factors are reviewed and monitored to assess positive and negative changes in valuation including, but not limited to, current operating performance and future expectations of the particular investment, industry valuations of comparable public companies and changes in market outlook and the third-party financing environment over time. In determining valuation adjustments resulting from the investment review process, emphasis is placed on current company performance and market conditions. These investments are included in Level 3 of the valuation hierarchy if the entities and funds are not widely traded and the underlying investments are in privately-held and/or start-up companies for which market values are not readily available. Certain investments in funds for which the underlying assets of the fund represent publicly traded investments are included in Level 2 of the valuation hierarchy.

Other assets – Included in other assets are certain assets carried at fair value, including interest rate swap agreements, cash flow hedge agreements and interest rate locks associated with the mortgage loan pipeline. The carrying amount of interest rate swap agreements is based on Pinnacle Financial's pricing models that utilize observable market inputs. The fair value of the cash flow hedge agreements is determined by calculating the difference between the discounted fixed rate cash flows and the discounted variable rate cash flows. The fair value of the mortgage loan pipeline is based upon the projected sales price of the underlying loans, taking into account market interest rates and other market factors at the measurement date, net of the projected fallout rate. Pinnacle Financial reflects these assets within Level 2 of the valuation hierarchy as these assets are valued using similar transactions that occur in the market.

Impaired loans – A loan is classified as impaired when it is probable Pinnacle Financial will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance may be established as a component of the allowance for loan losses or the difference may be recognized as a charge-off. Impaired loans are classified within Level 3 of the hierarchy due to the unobservable inputs used in determining their fair value such as collateral values and the borrower's underlying financial condition.

Other real estate owned – Other real estate owned (OREO) represents real estate foreclosed upon by Pinnacle Bank through loan defaults by customers or acquired by deed in lieu of foreclosure. Substantially all of these amounts relate to lots, homes and development projects that are either completed or are in various stages of construction for which Pinnacle Financial believes it has adequate collateral. Upon foreclosure, the property is recorded at the lower of cost or fair value, based on appraised value, less selling costs estimated as of the date acquired with any loss recognized as a charge-off through the allowance for loan losses. Additional OREO losses for subsequent valuation downward adjustments are determined on a specific property basis and are included as a component of noninterest expense along with holding costs. Any gains or losses realized at the time of disposal are also reflected in noninterest expense, as applicable. OREO is included in Level 3 of the valuation hierarchy due to the lack of observable market inputs into the determination of fair value as appraisal values are property-specific and sensitive to the changes in the overall economic environment.

Liabilities

Other liabilities – Pinnacle Financial has certain liabilities carried at fair value including certain interest rate swap agreements to facilitate customer transactions and the cash flow hedge and interest rate locks associated with the funding for its mortgage loan originations. The fair value of these liabilities is based on Pinnacle Financial's pricing models that utilize observable market inputs and is reflected within Level 2 of the valuation hierarchy.

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The following tables present financial instruments measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017, by caption on the consolidated balance sheets and by FASB ASC 820 valuation hierarchy (as described above) (in thousands):

	Total carrying value in the consolidated balance sheet	Quoted market prices in an active market (Level 1)	Models with significant observable market parameters (Level 2)	Models with significant unobservable market parameters (Level 3)
June 30, 2018				
Investment securities available-for-sale:				
U.S. Treasury securities	$ 30,780	$ —	$ 30,780	$ —
U.S. government agency securities	173,229	—	173,229	—
Mortgage-backed securities	1,239,031	—	1,239,031	—
State and municipal securities	1,207,181	—	1,191,891	15,290
Agency-backed securities	240,446	—	240,446	—
Corporate notes and other	69,461	—	69,461	—
Total investment securities available-for-sale	$ 2,960,128	$ —	$ 2,944,838	$ 15,290
Other investments	47,983	—	24,405	23,578
Other assets	27,494	—	27,494	—
Total assets at fair value	$ 3,035,605	$ —	$ 2,996,737	$ 38,868
Other liabilities	$ 23,712	$ —	$ 23,712	$ —
Total liabilities at fair value	$ 23,712	$ —	$ 23,712	$ —
December 31, 2017				
Investment securities available-for-sale:				
U.S. Treasury securities	$ 30,445	$ —	$ 30,445	$ —
U.S. government agency securities	180,801	—	180,801	—
Mortgage-backed securities	1,263,819	—	1,263,819	—
State and municipal securities	784,612	—	767,583	17,029
Agency-backed securities	173,292	—	173,292	—
Corporate notes and other	82,314	—	82,314	—
Total investment securities available-for-sale	2,515,283	—	2,498,254	17,029
Other investments	28,874	—	—	28,874
Other assets	11,812	—	11,812	—
Total assets at fair value	$ 2,555,969	$ —	$ 2,510,066	$ 45,903
Other liabilities	$ 13,886	$ —	$ 13,886	$ —
Total liabilities at fair value	$ 13,886	$ —	$ 13,886	$ —

The following table presents assets measured at fair value on a nonrecurring basis as of June 30, 2018 and December 31, 2017 (in thousands):

June 30, 2018	Total carrying value in the consolidated	Quoted market prices in an	Models with significant observable	Models with significant unobservable market	Total gains (losses) for the year-to-date

	balance sheet	active market (Level 1)	market parameters (Level 2)	parameters (Level 3)	period then ended
Other real estate owned	$ 19,785	$ —	$ —	$ 19,785	$ 15
Impaired loans, net [1]	35,548	—	—	35,548	(35)
Total	$ 55,333	$ —	$ —	$ 55,333	$ (20)
December 31, 2017					
Other real estate owned	$ 27,831	$ —	$ —	$ 27,831	$ 203
Impaired loans, net [1]	22,723	—	—	22,723	(4)
Total	$ 50,554	$ —	$ —	$ 50,554	$ 199

[1] Amount is net of valuation allowance of $2.3 million and $2.2 million at June 30, 2018 and December 31, 2017, respectively, as required by ASC 310-10, "Receivables."

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In the case of the investment securities portfolio, Pinnacle Financial monitors the portfolio to ascertain when transfers between levels have been affected. The nature of the remaining assets and liabilities is such that transfers in and out of any level are expected to be rare. For the six months ended June 30, 2018, there were transfers between Levels 1, 2 or 3 of $12.2 million. Transfers out of Level 3 of the valuation hierarchy represent equity securities for which the fair values have been deemed to be not readily determinable and for which the securities are currently carried at cost and evaluated for impairment.

The table below includes a rollforward of the balance sheet amounts for the three and six months ended June 30, 2018 and June 30, 2017 (including the change in fair value) for financial instruments classified by Pinnacle Financial within Level 3 of the valuation hierarchy measured at fair value on a recurring basis including changes in fair value due in part to observable factors that are part of the valuation methodology (in thousands):

	For the three months ended June 30,				For the six months ended June 30,			
	2018		2017		2018		2017	
	Available-for-sale Securities	Other assets	Available-for-sale Securities	Other assets	Available-for-sale Securities	Other assets	Available-for-sale Securities	Other assets
Fair value, beginning of period	$15,226	$29,788	$ —	$ 10,492	$17,029	$28,874	$ —	$ 10,478
Total realized gains included in income	30	2,265	—	240	60	2,777	—	437
Changes in unrealized gains/losses included in other comprehensive income for assets and liabilities still held at June 30	34	—	—	—	(631)	—	—	—
Acquired	—	—	—	17,062	—	—	—	17,062
Purchases	—	3,948	—	649	—	4,818	—	769
Issuances	—	—	—	—	—	—	—	—
Settlements	—	(257)	—	(593)	(1,168)	(725)	—	(896)
Transfers out of Level 3	—	(12,166)	—	—		(12,166)	—	—
Fair value, end of period	$15,290	23,578	—	27,850	$15,290	$23,578	$ —	$ 27,850
Total realized gains included in income related to financial assets and liabilities still on the consolidated balance sheet at June 30	$30	$2,265	$ —	$ 240	$60	$2,777	$ —	$ 437

The following methods and assumptions were used by Pinnacle Financial in estimating its fair value disclosures for financial instruments that are not measured at fair value. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flow models. Those models are significantly affected by the assumptions used, including the discount rates, estimates of future cash flows and borrower creditworthiness. The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2018 and December 31, 2017. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Securities held-to-maturity - Estimated fair values for investment securities are based on quoted market prices where available. If quoted market prices are not available, then fair values are estimated by using pricing models that use observable inputs or quoted prices of securities with similar characteristics.

Loans - The fair value of Pinnacle Financial's loan portfolio includes a credit risk factor in the determination of the fair value of its loans. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. Pinnacle Financial's loan portfolio is initially fair valued using a segmented approach. Pinnacle Financial divides its loan portfolio into the following categories: variable rate loans, impaired loans and all other loans. The results are then adjusted to account for credit risk.

The values derived from the discounted cash flow approach for our performing loan portfolio incorporate credit risk to determine the exit price. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral.

Purchased loans, including loans acquired through a merger, are initially recorded at fair value on the date of purchase. Purchased loans that contain evidence of post-origination credit deterioration as of the purchase date are carried at the net present value of expected future cash flows. All other purchased loans are recorded at their initial fair value, and adjusted for subsequent advances, pay downs, amortization or accretion of any fair value premium or discount on purchase, charge-offs and any other adjustment to carrying value.

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Loans held-for-sale - Loans held-for-sale are carried at the lower of cost or fair value. The estimate of fair value is based on pricing models and other information.

Deposits, securities sold under agreements to repurchase, Federal Home Loan Bank (FHLB) advances, subordinated debt and other borrowings - The fair value of demand deposits, savings deposits and securities sold under agreements to repurchase are derived from a selection of market transactions reflecting our peer group. Fair values for certificates of deposit, FHLB advances and subordinated debt are estimated using discounted cash flow models, using current market interest rates offered on certificates, advances and other borrowings with similar remaining maturities.

Off-balance sheet instruments - The fair values of Pinnacle Financial's off-balance-sheet financial instruments are based on fees charged to enter into similar agreements. However, commitments to extend credit do not represent a significant value to Pinnacle Financial until such commitments are funded.

The following table presents the carrying amounts, estimated fair value and placement in the fair value hierarchy of Pinnacle Financial's financial instruments at June 30, 2018 and December 31, 2017. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as non-interest bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity (in thousands):

June 30, 2018	Carrying/ Notional Amount	Estimated Fair Value [1]	Quoted market prices in an active market (Level 1)	Models with significant observable market parameters (Level 2)	Models with significant unobservable market parameters (Level 3)
Financial assets:					
Securities held-to-maturity	$ 15,341	$ 15,259	$ —	$ 15,259	$ —
Loans, net	16,967,183	16,838,989	—	—	16,838,989
Consumer loans held-for-sale	108,592	109,572	—	109,572	—
Commercial loans held-for-sale	21,277	21,469	—	21,469	—
Financial liabilities:					
Deposits and securities sold under agreements to repurchase	17,986,157	17,401,607	—	—	17,401,607
Federal Home Loan Bank advances	1,581,867	1,568,693	—	—	1,568,693
Subordinated debt and other borrowings	465,433	438,051	—	—	438,051
Off-balance sheet instruments:					
Commitments to extend credit [2]	6,323,041	1,767	—	—	1,767
Standby letters of credit [3]	175,856	1,097	—	—	1,097
December 31, 2017					
Financial assets:					
Securities held-to-maturity	$ 20,762	$ 20,830	$ —	$ 20,830	$ —
Loans, net	15,565,876	15,252,953	—	—	15,252,953
Consumer loans held-for-sale	103,729	104,986	—	104,986	—

Commercial loans held-for-sale	25,456	25,761	—	25,761	—
Financial liabilities:					
Deposits and securities sold under agreements to repurchase	16,586,964	16,516,342	—	—	16,516,342
Federal Home Loan Bank advances	1,319,909	1,313,311	—	—	1,313,311
Subordinated debt and other borrowings	465,505	445,098	—	—	445,098
Off-balance sheet instruments:					
Commitments to extend credit (2)	5,788,425	2,264	—	—	2,264
Standby letters of credit (3)	143,684	800	—	—	800

(1) Estimated fair values are consistent with an exit-price concept. The assumptions used to estimate the fair values are intended to approximate those that a market-participant would realize in a hypothetical orderly transaction.

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(2) At the end of each quarter, Pinnacle Financial evaluates the inherent risks of the outstanding off-balance sheet commitments. In making this evaluation, Pinnacle Financial evaluates the credit worthiness of the borrower, the collateral supporting the commitments and any other factors similar to those used to evaluate the inherent risks of our loan portfolio. Additionally, Pinnacle Financial evaluates the probability that the outstanding commitment will eventually become a funded loan. As a result, at June 30, 2018 and December 31, 2017, Pinnacle Financial included in other liabilities $1.8 million and $2.3 million, respectively, representing the inherent risks associated with these off-balance sheet commitments.

(3) At June 30, 2018 and December 31, 2017, the aggregate fair value of Pinnacle Financial's standby letters of credit was $1.1 million and $800,000, respectively. These amounts represent the unamortized fee associated with these standby letters of credit and are included in the consolidated balance sheets of Pinnacle Financial and are believed to approximate fair value. These fair values will decrease over time as the existing standby letters of credit approach their expiration dates.

Note 11. Regulatory Matters

Pursuant to Tennessee banking law, Pinnacle Bank may not, without the prior consent of the Commissioner of the Tennessee Department of Financial Institutions (TDFI), pay any dividends to Pinnacle Financial in a calendar year in excess of the total of Pinnacle Bank's retained net income for that year plus the retained net income for the preceding two years. During the six months ended June 30, 2018, Pinnacle Bank paid $50.5 million in dividends to Pinnacle Financial. Since the first quarter of 2016, Pinnacle Financial has paid a quarterly common stock dividend of $0.14 per share. The amount and timing of all future dividend payments by Pinnacle Financial, if any, is subject to discretion of Pinnacle Financial's board of directors and will depend on Pinnacle Financial's earnings, capital position, financial condition and other factors, including then applicable regulatory capital requirements, as they become known to Pinnacle Financial and Pinnacle Bank's ability to pay dividends to Pinnacle Financial.

Pinnacle Financial and Pinnacle Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Pinnacle Financial and Pinnacle Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Pinnacle Financial's and Pinnacle Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require Pinnacle Financial and its banking subsidiary to maintain minimum amounts and ratios of common equity Tier 1 capital to risk-weighted assets, Tier 1 capital to risk-weighted assets, total risk-based capital to risk-weighted assets and of Tier 1 capital to average assets.

The final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for Pinnacle Financial on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The minimum capital level requirements applicable to bank holding companies and banks subject to the rules are: (i) a common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6%; (iii) a total risk-based capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4% for all institutions. The Basel III rules also establish a capital conservation buffer of 2.5% (to be phased in over three years) above the regulatory minimum risk-based capital ratios. The capital conservation buffer was phased in beginning in January 2016 at 0.625% and is increasing each year by a like percentage until fully implemented in January 2019. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. Management believes, as of June 30, 2018, that Pinnacle Financial and Pinnacle Bank met all capital adequacy requirements to which they are subject. To be categorized as well-capitalized under applicable banking regulations, Pinnacle Financial and Pinnacle Bank must maintain certain total risk-based, Tier 1 risk-based, common equity Tier 1 and Tier 1 leverage ratios as set forth in the following table and not be subject to a written agreement, order or directive to maintain a higher capital level. Pinnacle Financial's and Pinnacle Bank's actual capital amounts and resulting ratios, not including the capital conservation buffer, are presented in the following table (in thousands):

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	Actual		Minimum Capital Requirement		Minimum To Be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At June 30, 2018						
Total capital to risk weighted assets:						
Pinnacle Financial	$2,413,368	12.0%	$1,612,148	8.0%	NA	NA
Pinnacle Bank	$2,254,929	11.2%	$1,607,173	8.0%	$2,008,966	10.0%
Tier 1 capital to risk weighted assets:						
Pinnacle Financial	$1,864,397	9.3 %	$1,209,111	6.0%	NA	NA
Pinnacle Bank	$2,048,545	10.2%	$1,205,380	6.0%	$1,607,173	8.0 %
Common equity Tier 1 capital to risk weighted assets						
Pinnacle Financial	$1,864,274	9.3 %	$906,833	4.5%	NA	NA
Pinnacle Bank	$2,048,422	10.2%	$904,035	4.5%	$1,305,828	6.5 %
Tier 1 capital to average assets (*):						
Pinnacle Financial	$1,864,397	8.8 %	$850,857	4.0%	NA	NA
Pinnacle Bank	$2,048,545	9.7 %	$847,932	4.0%	$1,059,915	5.0 %

	Actual		Minimum Capital Requirement		Minimum To Be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2017						
Total capital to risk weighted assets:						
Pinnacle Financial	$2,266,161	12.0%	$1,509,496	8.0%	NA	NA
Pinnacle Bank	$2,134,344	11.3%	$1,504,765	8.0%	$1,880,956	10.0%
Tier 1 capital to risk weighted assets:						
Pinnacle Financial	$1,725,323	9.1 %	$1,132,122	6.0%	NA	NA
Pinnacle Bank	$1,936,313	10.3%	$1,128,574	6.0%	$1,504,765	8.0 %
Common equity Tier 1 capital to risk weighted assets						
Pinnacle Financial	$1,725,219	9.1 %	$849,092	4.5%	NA	NA
Pinnacle Bank	$1,936,209	10.3%	$846,430	4.5%	$1,222,621	6.5 %
Tier 1 capital to average assets (*):						
Pinnacle Financial	$1,725,323	8.6 %	$797,861	4.0%	NA	NA
Pinnacle Bank	$1,936,313	9.7 %	$796,235	4.0%	$995,294	5.0 %

(*) Average assets for the above calculations were based on the most recent quarter.

Note 12. Subordinated Debt and Other borrowings

Pinnacle Financial has twelve wholly-owned subsidiaries that are statutory business trusts created for the exclusive purpose of issuing 30-year capital trust preferred securities. Additionally, Pinnacle Financial or Pinnacle Bank has entered into certain other subordinated debt agreements and a revolving credit facility as outlined below and, with respect to the legacy Pinnacle Financial indebtedness, as fully described in its 2017 Form 10-K (in thousands):

Name	Date Established	Maturity	Total Debt Outstanding	Interest Rate at June 30, 2018	Coupon Structure
Trust preferred securities					
Pinnacle Statutory Trust I	December 29, 2003	December 30, 2033	$ 10,310	5.13 %	30-day LIBOR + 2.80%

Pinnacle Statutory Trust II	September 15, 2005	September 30, 2035	20,619	3.74 %	30-day LIBOR + 1.40%
Pinnacle Statutory Trust III	September 7, 2006	September 30, 2036	20,619	3.99 %	30-day LIBOR + 1.65%
Pinnacle Statutory Trust IV	October 31, 2007	September 30, 2037	30,928	5.19 %	30-day LIBOR + 2.85%
BNC Capital Trust I	April 3, 2003	April 15, 2033	5,155	5.60 %	30-day LIBOR + 3.25%
BNC Capital Trust II	March 11, 2004	April 7, 2034	6,186	5.20 %	30-day LIBOR + 2.85%
BNC Capital Trust III	September 23, 2004	September 23, 2034	5,155	4.75 %	30-day LIBOR + 2.40%
BNC Capital Trust IV	September 27, 2006	December 31, 2036	7,217	4.04 %	30-day LIBOR + 1.70%
Valley Financial Trust I	June 26, 2003	June 26, 2033	4,124	5.44 %	30-day LIBOR + 3.10%
Valley Financial Trust II	September 26, 2005	December 15, 2035	7,217	3.83 %	30-day LIBOR + 1.49%

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Valley Financial Trust III	December 15, 2006	January 30, 2037	5,155	4.09 %	30-day LIBOR + 1.73%
Southcoast Capital Trust III	August 5, 2005	September 30, 2035	10,310	3.84 %	30-day LIBOR + 1.50%
Subordinated Debt					
Pinnacle Bank Subordinated Notes	July 30, 2015	July 30, 2025	60,000	4.88 %	Fixed (1)
Pinnacle Bank Subordinated Notes	March 10, 2016	July 30, 2025	70,000	4.88 %	Fixed (1)
Avenue Subordinated Notes	December 29, 2014	December 29, 2024	20,000	6.75 %	Fixed (2)
Pinnacle Financial Subordinated Notes	November 16, 2016	November 16, 2026	120,000	5.25 %	Fixed (3)
BNC Subordinated Notes	September 25, 2014	October 1, 2024	60,000	5.50 %	Fixed (4)
BNC Subordinated Note	October 15, 2013	October 15, 2023	10,430	6.98 %	30-day LIBOR + 5.50% (5)
Other Borrowings					
Revolving credit facility (6)	April 26, 2018	April 25, 2019	—	—	30-day LIBOR + 1.75%
Debt issuance costs and fair value adjustments			(7,992)		
Total subordinated debt and other borrowings			$465,433		

(1) Migrates to three month LIBOR + 3.128% beginning July 30, 2020 through the end of the term.
(2) Migrates to three month LIBOR + 4.95% beginning January 1, 2020 through the end of the term.
(3) Migrates to three month LIBOR + 3.884% beginning November 16, 2021 through the end of the term.
(4) Migrates to three month LIBOR + 3.59% beginning October 1, 2019 through the end of the term if not redeemed on that date.
(5) Coupon structure includes a floor of 5.5% and a cap of 9.5%.
(6) Borrowing capacity on the revolving credit facility is $75.0 million. At June 30, 2018, there was no outstanding balance under this facility. An unused fee of 0.35% is assessed on the average daily unused amount of the loan.

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

The following is a discussion of our financial condition at June 30, 2018 and December 31, 2017 and our results of operations for the three and six months ended June 30, 2018 and 2017. The purpose of this discussion is to focus on information about our financial condition and results of operations which is not otherwise apparent from our consolidated financial statements. The following discussion and analysis should be read along with our consolidated financial statements and the related notes included elsewhere herein and the risk factors discussed herein and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (2017 10-K) and the other reports we have filed with the Securities and Exchange Commission since we filed the 2017 10-K.

Overview

Our diluted net income per common share for the three and six months ended June 30, 2018 was $1.12 and $2.20, respectively, compared to $0.80 and $1.62 for the same periods in 2017, respectively. At June 30, 2018, loans had increased to $17.04 billion, as compared to $15.63 billion at December 31, 2017, and total deposits increased to $17.86 billion at June 30, 2018 from $16.45 billion at December 31, 2017. The comparability of our financial performance for the three and six month periods ended June 30, 2018 compared to the comparable periods in 2017 has been impacted by the June 16, 2017 acquisition of BNC Bancorp (BNC).

BNC Acquisition. We acquired BNC on June 16, 2017. BNC's net assets were fair valued at $602.7 million, including loans valued at $5.60 billion and deposits valued at $6.21 billion. This acquisition expanded our footprint into the Carolinas and Virginia.

Each holder of BNC common stock (including restricted shares) received 0.5235 shares of Pinnacle Financial's common stock for each share of BNC common stock held by each shareholder on the closing date. We issued 27,687,100 shares of common stock and paid cash consideration of approximately $129,000, related to fractional shares, to the BNC shareholders. Included in the common stock issued were 136,890 assumed shares of unvested restricted stock that are continuing to vest over their original contractual terms. The fair value of these awards was $9.2 million, with $5.4 million attributable to precombination services provided by the recipients prior to the merger, that accordingly was included as merger consideration.

Results of Operations. Our net interest income increased to $182.2 million and $356.7 million for the three and six months ended June 30, 2018, respectively, compared to $106.6 million and $195.4 million for the same periods in the prior year, representing an increase of $75.6 million and $161.3 million, respectively, largely as a result of our merger with BNC as well as continued organic loan growth subsequent to the merger. The net interest margin (the ratio of net interest income to average earning assets) for the three and six months ended June 30, 2018 was 3.69% and 3.73%, respectively, compared to 3.68% and 3.64%, respectively, for the same periods in 2017.

Our provision for loan losses was $9.4 million and $16.3 million for the three and six months ended June 30, 2018, respectively, compared to $6.8 million and $10.5 million, respectively, for the same periods in 2017. Net charge-offs were $3.9 million and $7.9 million for the three and six months ended June 30, 2018, respectively, compared to $3.2 million and $7.5 million, respectively, for the same periods in 2017. Provision expense for all periods was impacted by organic loan growth and by charge-offs realized in our consumer portfolio, primarily related to non-prime automobile loans.

At June 30, 2018, our allowance for loan losses as a percentage of total loans was 0.44% at June 30, 2018 compared to 0.43% at December 31, 2017. The calculated allowance for loan losses as a percentage of total loans is impacted by the acquired loan portfolios being accounted for at fair value as of the respective acquisition date. At June 30, 2018, the remaining fair value discount for all acquired portfolios was $132.1 million, consisting of $28.2 million of nonaccretable discount attributable to purchase credit impaired loans and $103.9 million of accretable discount on non-purchase credit impaired loans. For loans acquired in connection with our mergers, the calculation of the allowance for loan losses subsequent to the acquisition date is consistent with that utilized for legacy Pinnacle Financial loans. Our accounting policy is to compare the computed allowance for loan losses on purchased loans to the remaining fair value adjustment at the individual loan level. Generally the fair value adjustments are expected to accrete to interest income over the remaining contractual life of the underlying loans and decrease proportionately with the related loan balance. However, if the computed allowance is greater than the remaining fair value adjustment, the excess is added to the allowance for loan losses by a provision for loan losses. Additional provisioning for purchased portfolios results from credit deterioration on the individual loan or from increased borrowings on loans and lines that existed as of the acquisition date. Should a loan with a remaining fair value discount be paid off prior to maturity, the remaining fair value discount is recognized as interest income in the period when the loan is paid off.

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Noninterest income increased by $12.9 million, or 36.7% percent, and $26.7 million, or 40.8% percent, during the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. A portion of the growth in noninterest income was attributable to an increase in income from equity method investment which was $9.7 million and $19.1 million for the three and six months ended June 30, 2018, respectively, compared to $8.8 million and $16.6 million for the same periods in the prior year. The additional growth within noninterest income was attributable to increased contributions from our fee-based businesses such as investments, insurance and trust, resulting from both organic growth and our June 16, 2017 merger with BNC as well as gains on bank-owned life insurance.

Noninterest expense increased by $39.1 million, or 54.5% percent, and $85.6 million, or 64.0% percent, during the three and six months ended June 30, 2018, respectively, as compared to the three and six months ended June 30, 2017. The change in noninterest expense during the above noted periods reflects the impact of our merger with BNC, that contributed to increased salaries and employment benefits, increased equipment and occupancy costs due to our expanded retail network, and increased intangible amortization expense and merger-related expenses. Salaries and employee benefits were $64.1 million and $127.8 million for the three and six months ended June 30, 2018 compared to $43.7 million and $82.0 million for the three and six months ended June 30, 2017. This increase primarily resulted from annual merit increases and our acquisition of BNC on June 16, 2017. At June 30, 2018, approximately 837.5 full-time equivalent associates were deployed in the former BNC footprint. Merger-related expenses for the three and six months ended June 30, 2018 were $2.9 million and $8.3 million, respectively, compared to $3.2 million and $3.9 million for the three and six months ended June 30, 2017, respectively. Merger-related expenses incurred for the three and six months ended June 30, 2018 related to our merger with BNC and were inclusive of costs associated with associate retention packages and cultural and technology integrations.

During the three and six months ended June 30, 2018, Pinnacle Financial recorded income tax expense of $23.0 million and $42.6 million, respectively, compared to $20.0 million and $33.8 million for the three and six months ended June 30, 2017, respectively. Pinnacle Financial's effective tax rate for the three and six months ended June 30, 2018 was 20.9% and 20.0%, respectively, compared to 31.7% and 29.0% for the three and six months ended June 30, 2017, respectively. The reduction in the effective tax rate is largely due to the reduction in the federal statutory corporate tax rate following enactment of the Tax Cuts and Jobs Act. Pinnacle Financial's effective tax rate differs from the combined federal and state income tax statutory rate applicable to Pinnacle Financial of 26.14% at June 30, 2018 and 39.23% at June 30, 2017 primarily due to state excise tax expense, our investments in bank-qualified municipal securities, tax benefits from our real estate investment trust subsidiary, participation in Tennessee's Community Investment Tax Credit (CITC) program, tax benefits associated with bank-owned life insurance and tax savings from our captive insurance subsidiary, offset in part by the limitation on deductibility of meals and entertainment expense and non-deductible FDIC insurance premiums. Tax benefits associated with our equity-based compensation program also reduced our income tax expense in both periods and resulted in tax benefits of $72,000 and $2.8 million for the three and six months ended June 30, 2018, respectively, compared to $789,000 and $4.6 million, respectively, for the same periods in the prior year.

Our efficiency ratio (the ratio of noninterest expense to the sum of net interest income and noninterest income) was 48.2% and 48.9%, respectively, for the three and six months ended June 30, 2018 compared to 50.7% and 51.3%, respectively, for the same periods in 2017. The efficiency ratio measures the amount of expense that is incurred to generate a dollar of revenue.

Financial Condition. Reflecting organic growth due to continued economic growth in our core markets, increases in the number of relationship advisors and continued focus on attracting new customers to our company, net loans increased $1.40 billion, or 9.0%, during the six months ended June 30, 2018, when compared to December 31, 2017. Total deposits were $17.86 billion at June 30, 2018, compared to $16.45 billion at December 31, 2017, an increase of $1.41 billion.

Capital and Liquidity. At June 30, 2018 and December 31, 2017, our capital ratios, including our bank's capital ratios, exceeded regulatory minimum capital requirements and those necessary to be considered well-capitalized under applicable federal regulations. See Note 11. Regulatory Matters in the Consolidated Financial Statements. From time to time we may be required to support the capital needs of our bank (Pinnacle Bank). At June 30, 2018, we had approximately $77.1 million of cash at the holding company, substantially all of which could be used to support our bank. We believe we have various capital raising techniques available to us to provide for the capital needs of our company and bank, including an established line of credit with another bank that can be utilized, subject to the terms and conditions thereof, to provide up to $75 million of additional capital support to Pinnacle Bank, if needed.

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Critical Accounting Estimates

The accounting principles we follow and our methods of applying these principles conform with U.S. GAAP and with general practices within the banking industry. There have been no significant changes to our Critical Accounting Policies as described in our 2017 10-K.

Results of Operations

The following is a summary of our results of operations (dollars in thousands, except per share data):

	Three months ended June 30,		2018 - 2017 Percent Increase (Decrease)		Six Months Ended June 30,		2018 - 2017 Percent Increase (Decrease)	
	2018	2017			2018	2017		
Interest income	$230,984	$123,743	86.7	%	$442,512	$225,886	95.9	%
Interest expense	48,748	17,116	184.8	%	85,805	30,492	181.4	%
Net interest income	182,236	106,627	70.9	%	356,707	195,394	82.6	%
Provision for loan losses	9,402	6,812	38.0	%	16,333	10,463	56.1	%
Net interest income after provision for loan losses	172,834	99,815	73.2	%	340,374	184,931	84.1	%
Noninterest income	47,939	35,057	36.7	%	92,122	65,438	40.8	%
Noninterest expense	110,908	71,798	54.5	%	219,488	133,851	64.0	%
Net income before income taxes	109,865	63,074	74.2	%	213,008	116,518	82.8	%
Income tax expense	23,000	19,988	15.1	%	42,633	33,779	26.2	%
Net income	$86,865	$43,086	101.6	%	$170,375	$82,739	105.9	%
Basic net income per common share	$1.13	$0.81	39.5	%	$2.21	$1.64	34.8	%
Diluted net income per common share	$1.12	$0.80	40.0	%	$2.20	$1.62	35.8	%

Net Interest Income. Net interest income represents the amount by which interest earned on various earning assets exceeds interest paid on deposits and other interest-bearing liabilities and is the most significant component of our revenues. Net interest income totaled $182.2 million and $356.7 million, respectively, for the three and six months ended June 30, 2018, an increase of $75.6 million and $161.3 million from the levels recorded in the same periods of 2017. This increase was attributable to the growth in our loan portfolio due to our merger with BNC, organic growth, and an increase in the interest rates we receive on interest earning assets, offset in part by increases in the volume and the rates we pay on deposits and our other funding sources. Average loans for the three and six months ended June 30, 2018 were 70.4% and 77.8%, respectively, greater than average loan balances for the same periods in 2017.

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The following tables set forth the amount of our average balances, interest income or interest expense for each category of interest-earning assets and interest-bearing liabilities and the average interest rate for interest-earning assets and interest-bearing liabilities, net interest spread and net interest margin for the three and six months ended June 30, 2018 and 2017 (dollars in thousands):

	Three months ended June 30, 2018			Three months ended June 30, 2017		
	Average Balances	Interest	Rates/ Yields	Average Balances	Interest	Rates/ Yields
Interest-earning assets:						
Loans (1)	$16,729,734	$208,758	5.04 %	$9,817,139	$112,320	4.66 %
Securities:						
Taxable	1,792,845	11,748	2.63 %	1,487,806	8,265	2.23 %
Tax-exempt (2)	1,177,422	8,350	3.34 %	310,528	2,235	3.87 %
Federal funds sold and other	442,401	2,128	1.93 %	269,645	923	1.37 %
Total interest-earning assets	20,142,402	$230,984	4.66 %	11,885,118	$123,743	4.21 %
Nonearning assets						
Intangible assets	1,860,868			784,603		
Other nonearning assets	1,233,675			665,638		
Total assets	$23,236,945			$13,335,359		
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest bearing DDAs	$805,798	$2,135	1.06 %	$528,059	$846	0.64 %
Interest checking	2,232,908	4,260	0.77 %	1,507,548	1,681	0.45 %
Savings and money market	6,739,430	16,165	0.96 %	4,470,577	5,997	0.54 %
Time	2,900,779	10,207	1.41 %	1,141,584	2,470	0.87 %
Total interest-bearing deposits	12,678,915	32,767	1.04 %	7,647,768	10,994	0.58 %
Securities sold under agreements to repurchase	123,447	144	0.47 %	99,763	79	0.32 %
Federal Home Loan Bank advances	1,884,828	9,690	2.06 %	399,083	1,485	1.49 %
Subordinated debt and other borrowings	474,328	6,147	5.20 %	375,249	4,558	4.87 %
Total interest-bearing liabilities	15,161,518	48,748	1.29 %	8,521,863	17,116	0.81 %
Noninterest-bearing deposits	4,270,459	—	0.00 %	2,746,499	—	0.00 %
Total deposits and interest-bearing liabilities	19,431,977	$48,748	1.01 %	11,268,362	$17,116	0.61 %
Other liabilities	9,005			9,492		
Stockholders' equity	3,795,963			2,057,505		
Total liabilities and shareholders' equity	$23,236,945			$13,335,359		
Net interest income		$182,236			$106,627	
Net interest spread (3)			3.37 %			3.40 %
Net interest margin (4)			3.69 %			3.68 %

(1) Average balances of nonaccrual loans are included in the above amounts.
(2) Yields based on the carrying value of those tax exempt instruments are shown on a fully tax equivalent basis.
(3) Yields realized on interest-bearing assets less the rates paid on interest-bearing liabilities. The net interest spread calculation excludes the impact of demand deposits. Had the impact of demand deposits been included, the net interest spread for the three months ended June 30, 2018 would have been 3.66% compared to a net interest spread of 3.60% for the three months ended June 30, 2017.
(4) Net interest margin is the result of annualized net interest income calculated on a tax-equivalent basis divided by average interest-earning assets for the period.

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	Six months ended June 30, 2018			Six months ended June 30, 2017		
	Average Balances	Interest	Rates/ Yields	Average Balances	Interest	Rates/ Yields
Interest-earning assets:						
Loans [(1)]	$16,345,734	$399,972	4.98 %	$9,191,181	$205,538	4.58 %
Securities:						
Taxable	1,793,619	22,970	2.58 %	1,346,093	14,698	2.20 %
Tax-exempt [(2)]	1,106,705	15,635	3.33 %	274,519	3,913	3.85 %
Federal funds sold and other	389,043	3,935	2.04 %	266,533	1,737	1.31 %
Total interest-earning assets	19,635,101	$442,512	4.61 %	11,078,326	$225,886	4.14 %
Nonearning assets						
Intangible assets	1,862,294			676,015		
Other nonearning assets	1,226,229			629,450		
Total assets	$22,723,624			$12,383,791		
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest bearing DDAs	$790,426	$3,917	1.00 %	$522,577	$1,499	0.58 %
Interest checking	2,215,902	7,592	0.69 %	1,454,714	2,907	0.40 %
Savings and money market	6,597,734	28,153	0.86 %	4,187,024	10,450	0.50 %
Time	2,725,534	17,086	1.26 %	994,583	4,257	0.86 %
Total interest-bearing deposits	12,329,596	56,748	0.93 %	7,158,898	19,113	0.54 %
Securities sold under agreements to repurchase	126,690	273	0.43 %	89,777	128	0.29 %
Federal Home Loan Bank advances	1,735,385	16,697	1.94 %	306,531	2,389	1.57 %
Subordinated debt and other borrowings	475,066	12,087	5.13 %	371,222	8,862	4.81 %
Total interest-bearing liabilities	14,666,737	85,805	1.18 %	7,926,428	30,492	0.78 %
Noninterest-bearing deposits	4,287,229	—	0.00 %	2,591,548	—	0.00 %
Total deposits and interest-bearing liabilities	18,953,966	$85,805	0.91 %	10,517,976	$30,492	0.58 %
Other liabilities	5,185			7,419		
Stockholders' equity	3,764,473			1,858,396		
Total liabilities and shareholders' equity	$22,723,624			$12,383,791		
Net interest income		$356,707			$195,394	
Net interest spread [(3)]			3.43 %			3.37 %
Net interest margin [(4)]			3.73 %			3.64 %

(1) Average balances of nonaccrual loans are included in the above amounts.
(2) Yields based on the carrying value of those tax exempt instruments are shown on a fully tax equivalent basis.
(3) Yields realized on interest-bearing assets less the rates paid on interest-bearing liabilities. The net interest spread calculation excludes the impact of demand deposits. Had the impact of demand deposits been included, the net interest spread for the six months ended June 30, 2018 would have been 3.70% compared to a net interest spread of 3.72% for the six months ended June 30, 2017.
(4) Net interest margin is the result of annualized net interest income calculated on a tax-equivalent basis divided by average interest-earning assets for the period.

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For the three and six months ended June 30, 2018, our net interest margin was 3.69% and 3.73%, respectively, compared to 3.68% and 3.64% for the three and six months ended June 30, 2017, respectively. Although our net interest margin for the three and six month periods ended June 30, 2018 was positively impacted by yield expansion in our earning asset portfolio, these increases were partially offset by increases in our total funding costs. During the three and six months ended June 30, 2018, our earning asset yield increased by 45 basis points and 47 basis points, respectively, for the same periods in the prior year while total funding rates increased by 40 basis points and 33 basis points compared to the three and six months ended June 30, 2017. The increase in our core funding costs was caused by higher prevailing market interest rates and increased FHLB Cincinnati borrowings and subordinated debt which have higher interest rates than our deposits. The expansion of our earning asset yields was driven in part by the impact of recent Federal funds rate increases, which positively impacted our floating and variable rate loan and investment portfolios.

We continue to deploy various asset liability management strategies to manage our risk to interest rate fluctuations. Although the rise in interest rates that we anticipate in the second half of 2018 should be net beneficial to us, loan pricing for creditworthy borrowers and meaningful depositors is very competitive in our markets and may be impactful to our margins. We anticipate that this challenging competitive environment will continue during the remainder of 2018. We also expect the impact of purchase accounting on our net interest income will continue to decrease in future periods. However, we believe our net interest income should continue to increase in 2018 compared to 2017 primarily due to an increase in average earning asset volumes, including both loans and our securities portfolio. We seek to fund these increased earning assets by growing our core deposits, but will utilize wholesale and other forms of noncore funding to fund a shortfall, if any.

Provision for Loan Losses. The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in management's evaluation, should be adequate to provide coverage for the inherent losses on outstanding loans. Based upon management's assessment of the loan portfolio, we adjust our allowance for loan losses to an amount deemed appropriate to adequately cover probable losses inherent in the loan portfolio. At June 30, 2018, our allowance for loan losses as a percentage of total loans was 0.44%, up slightly from 0.43% at December 31, 2017. The absolute level of our allowance for loan losses is largely driven by continued favorable credit experience in our larger portfolios and is supported by the strong economies in the markets in which we operate.

The provision for loan losses amounted to $9.4 million and $16.3 million, respectively, and for the three and six months ended June 30, 2018 compared to $6.8 million and $10.5 million, respectively, for the three and six months ended June 30, 2017. Provision expense is impacted by the absolute level of loans, loan growth, the credit quality of the loan portfolio and the amount of net charge-offs. Provision expense in the most recent period continued to be negatively impacted by charge-offs realized in our consumer portfolio, primarily related to non-prime automobile loans, and also reflected the increase in our loan portfolio resulting from organic loan growth in 2018.

Noninterest Income. Our noninterest income is composed of several components, some of which vary significantly between quarterly and annual periods. Service charges on deposit accounts and other noninterest income generally reflect customer growth trends, while fees from our wealth management departments, the origination of mortgage loans and gains and losses on the sale of securities will often reflect financial market conditions and fluctuate from period to period.

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The following is a summary of our noninterest income for the three and six months ended June 30, 2018 and 2017 (dollars in thousands):

	Three months ended June 30,		2018 - 2017 Percent	Six Months Ended June 30,		2018 - 2017 Percent
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Noninterest income:						
Service charges on deposit accounts	$6,065	$4,179	45.1%	$11,885	$8,034	47.9%
Investment services	4,906	3,110	57.7%	10,013	5,932	68.8%
Insurance sales commissions	2,048	1,461	40.2%	5,167	3,320	55.6%
Gains on mortgage loans sold, net	3,777	4,668	(19.1)%	7,521	8,822	(14.7)%
Gain on sale of investment securities, net	—	—	NA	30	—	NA
Income from equity method investment	9,690	8,755	10.7%	19,050	16,578	14.9%
Trust fees	3,564	1,677	112.5%	6,681	3,382	97.5%
Other noninterest income:						
Interchange and other consumer fees	9,421	7,558	24.6%	17,976	13,709	31.1%
Bank-owned life insurance	2,894	1,395	107.5%	5,646	2,494	126.4%
Loan swap fees	752	336	123.8%	1,256	597	110.4%
SBA loan sales	1,728	710	143.4%	2,845	1,017	179.7%
Gain (loss) on other equity investments	2,090	240	770.8%	2,260	440	413.6%
Other noninterest income	1,004	968	3.7%	1,792	2,570	(30.3)%
Total other noninterest income	17,889	11,207	59.6%	31,775	20,827	52.6%
Total noninterest income	$47,939	$35,057	36.7%	$92,122	$66,895	37.7%

The increase in service charges on deposit accounts in the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017 is primarily related to increased analysis fees due to an increase in the volume and number of commercial checking accounts resulting from our acquisition of BNC.

Income from our wealth management groups (investments, insurance and trust) is also included in noninterest income. For the three and six months ended June 30, 2018, commissions and fees from investment services at our financial advisory unit, Pinnacle Asset Management, a division of Pinnacle Bank, increased by $1.8 million and $4.1 million, respectively, as compared to the three and six months ended June 30, 2017. At June 30, 2018 and 2017, Pinnacle Asset Management was receiving commissions and fees in connection with approximately $3.75 billion and $2.82 billion, respectively, in brokerage assets. Revenues from the sale of insurance products by our insurance subsidiaries for the three and six months ended June 30, 2018 were up approximately $587,000 and $1.8 million, respectively, when compared to the three and six months ended June 30, 2017. Included in insurance revenues for the six months ended June 30, 2018 was $1.0 million of contingent income received in the first quarter of 2018 and was based on 2017 sales production and improved claims experience compared to $652,000 recorded in the same period in the prior year. Additionally, at June 30, 2018, our trust department was receiving fees on approximately $1.92 billion of managed assets compared to $1.80 billion at June 30, 2017, reflecting organic growth. The growth in our wealth management businesses is attributable to our expanded distribution platform in our new markets as well as the addition of associates in our legacy Tennessee markets.

Gains on mortgage loans sold, net, consists of fees from the origination and sale of mortgage loans. These mortgage fees are for loans originated in our markets that are subsequently sold to third-party investors. Substantially all of these loan sales transfer servicing rights to the buyer. Generally, mortgage origination fees increase in lower interest rate environments and more robust housing markets and decrease in rising interest rate environments and more challenging housing markets. Mortgage origination fees will fluctuate from quarter to quarter as the rate environment changes. Gains on mortgage loans sold, net, were $3.8 million and $7.5 million, respectively, for the three and six months ended June 30, 2018 as compared to $4.7 million and $8.8 million, respectively, for the same periods in the prior year. We hedge a portion of our mortgage pipeline as part of a mandatory delivery program. There is positive correlation between the size of the mortgage pipeline and the value of this hedge. The hedge is not designated as a hedge for GAAP purposes and, as such, changes in its fair value are recorded directly through the income statement. Therefore, the size of the outstanding mortgage pipeline at any reporting period will directly impact the amount of revenue recorded for mortgage loans held for sale in any one period. An overall increase in the volume of loans included in the mortgage pipeline typically results in a gain on the change in the fair market value of the hedge. Decreases in the volume of loans included in the mortgage pipeline are likely to negatively impact the gains we recognize as a result of this program.

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Income from equity-method investment is comprised solely of income from our 49% equity-method investment in BHG. Income from this equity-method investment was $9.7 million and $19.1 million, respectively, for the three and six months ended June 30, 2018 compared to $8.8 million and $16.6 million, respectively, for the same periods last year. Income from equity-method investment is recorded net of associated expenses, including amortization expense associated with customer lists and other intangible assets of $693,000 and $1.4 million, respectively, for the three and six months ended June 30, 2018 compared to $832,000 and $1.7 million for the three and six months ended June 30, 2017. At June 30, 2018, there were $12.0 million of these intangible assets which will be amortized in lesser amounts over the next 17 years. Also included in income from equity-method investment, is accretion income associated with the fair valuation of certain of BHG's liabilities of $729,000 and $1.5 million, respectively, for the three and six months ended June 30, 2018, compared to $767,000 and $1.6 million for the three and six months ended June 30, 2017. At June 30, 2018, there were $8.8 million of these liabilities which will be accreted into income in lesser amounts over the next 8 years.

During the three and six months ended June 30, 2018, Pinnacle Financial and Pinnacle Bank received dividends from BHG of $19.1 million and $23.4 million, respectively, in the aggregate compared to $12.5 million and $14.9 million for the same periods in the prior year, which reduced the carrying amount of our investment in BHG, while earnings from BHG during the three and six months ended June 30, 2018 increased the carrying amount of our investment in BHG. Profits from intercompany transactions are eliminated. Our proportionate share of earnings from BHG is included in our consolidated tax return. No loans were purchased from BHG by Pinnacle Bank for the six month periods ended June 30, 2018 or 2017, respectively. Earnings from BHG may fluctuate from period-to-period.

As our ownership interest in BHG is 49%, we do not consolidate BHG's results of operations or financial position into our financial statements but record the net result of BHG's activities at our percentage ownership in income from equity method investment in noninterest income. For the three and six months ended June 30, 2018, BHG reported $49.1 million and $92.8 million, respectively, in revenues, net of substitution losses of $10.5 million and $21.8 million, respectively, compared to revenues of $37.0 million and $71.2 million, respectively, for the three and six months ended June 30, 2017, net of substitution losses of $11.6 million and $22.8 million, respectively.

Approximately $39.1 million and $74.2 million, respectively, of BHG's revenues for the three and six months ended June 30, 2018 related to gains on the sale of commercial loans BHG had previously issued to doctor, dentist and other medical and professional practices compared to $29.3 million and $56.6 million, respectively, for the three and six months ended June 30, 2017. BHG refers to this activity as its core product. BHG typically funds these loans from cash reserves on its balance sheet. Subsequent to origination, these core product loans are sold by BHG with no recourse to a network of community banks and other financial institutions at a premium to the par value of the loan. The purchaser may access a BHG cash reserve account of up to 3% of the loan balance to support loan payments. BHG retains no servicing or other responsibilities related to the core product loan once sold. As a result, this gain on sale premium represents BHG's compensation for absorbing the costs to originate the loan as well as marketing expenses associated with maintaining its business model. At June 30, 2018, there were $1.7 billion in core product loans previously sold by BHG that were being actively serviced by BHG's bank network of purchasers.

Traditionally, BHG, at its sole option, may also provide purchasers of these core product loans the ability to substitute the acquired loan with another more recently-issued BHG loan should the previously-acquired loan become at least 90-days past due as to its monthly payments. This substitution is subject to the purchaser having adhered to the standards of its purchase agreement with BHG. Additionally, all substitutions are subject to the approval by BHG's board of managers. As a result, the reacquired loans are deemed purchase credit impaired and recorded on BHG's balance sheet at the net present value of the loan's anticipated cash flows. BHG will then initiate collection efforts and attempt to restore the reacquired loan to performing status. Substitution losses are recorded as a contra revenue account and reduce total revenues discussed above. BHG maintained a liability as of June 30, 2018 and 2017 of $77.9 million and $59.7 million, respectively, that represents an estimate of the future inherent losses for the outstanding core portfolio that may be subject to future substitution.

- BHG will maintain loans on its balance sheet for a period of time prior to sale or transfer to a purchaser. Alternatively, BHG may elect to keep certain loans on its balance sheet through maturity. BHG also has an investment portfolio on which it earns interest and dividend income. Net interest income and fees associated with this activity amounted to $7.3 million and $13.8 million, respectively, for the three and six months ended June 30, 2018 compared to $4.8 million and $9.0 million, respectively, for the three and six months ended June 30, 2017.

- Additionally, BHG will also refer loans to other lenders and, based on an agreement with the lender, earn a fee for doing so. Typically, these are loans that BHG believes would either be classified as consumer-type loans rather than commercial loans, the loans fail to meet the credit underwriting standards of BHG but another lender will accept the loans or are loans to borrowers in certain geographic locations where BHG has elected not to do business. For the three and six months ended

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June 30, 2018, BHG recognized fee income of $394,000 and $584,000, respectively, as compared to $1.8 million and $3.8 million, respectively, for the same periods in the prior year related to these activities.

Included in other noninterest income are interchange and other consumer fees, gains from bank-owned life insurance, swap fees earned for the facilitation of derivative transactions for our clients, and other noninterest income items. Interchange revenues increased in the three and six months ended June 30, 2018 as a result of increased debit and credit card transactions as compared to the comparable periods in 2017 resulting from both customers added through acquisition and organic growth, but were negatively impacted by the Durbin amendment which was applicable to us beginning on July 1, 2017. We estimate that the Durbin amendment negatively impacted our noninterest income by approximately $5.4 million to $7.7 million in the first six months of 2018. Other noninterest income included changes in the cash surrender value of bank-owned life insurance which was $2.9 million and $5.6 million, respectively, for the three and six months ended June 30, 2018 compared to $1.4 million and $2.5 million, respectively, for the three and six months ended June 30, 2017. The increase in earnings on these bank-owned life insurance policies resulted primarily from the purchase of $50.0 million of new policies during the second quarter of 2018 as well as the additional $202.3 million of bank-owned life insurance policies with terms similar to our existing policies which were added upon acquisition of BNC. The assets that support these policies are administered by the life insurance carriers and the income we receive (i.e., increases or decreases in the cash surrender value of the policies) on these policies is dependent upon the returns the insurance carriers are able to earn on the underlying investments that support the policies. Earnings on these policies generally are not taxable. Loan swap fees and SBA loan sales are all included in other noninterest income and fluctuate based on the current market environment. Additionally, the carrying values of other equity investments are adjusted either upwards or downwards from the transaction price to reflect expected exit values as evidenced by financing and sale transactions with third parties, or when determination of a valuation adjustment is confirmed through ongoing reviews by senior investment managers.

Noninterest Expense. Noninterest expense consists of salaries and employee benefits, equipment and occupancy expenses, other real estate expenses, and other operating expenses. The following is a summary of our noninterest expense for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended June 30,		2018 - 2017 Percent	Six Months Ended June 30,		2018 - 2017 Percent
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Noninterest expense:						
Salaries and employee benefits:						
Salaries	$39,136	$26,312	48.7%	$78,241	$49,727	57.3%
Commissions	3,148	1,838	71.3%	6,177	3,470	78.0%
Cash and equity incentives	11,224	9,064	23.8%	21,403	14,986	42.8%
Employee benefits and other	10,604	6,460	64.1%	22,010	13,845	59.0%
Total salaries and employee benefits	64,112	43,674	46.8%	127,831	82,028	55.8%
Equipment and occupancy	18,208	10,713	70.0%	35,951	20,387	76.3%
Other real estate expense	819	63	NM	25	315	(92.1%)
Marketing and other business development	2,544	2,127	19.6%	4,791	4,006	19.6%
Postage and supplies	2,291	1,122	104.2%	4,330	2,319	86.7%
Amortization of intangibles	2,659	1,472	80.6%	5,357	2,668	100.8%
Merger-related expense	2,906	3,221	(9.8%)	8,259	3,893	112.2%
Other noninterest expense:						
Deposit related expense	6,078	1,804	236.9%	11,753	4,152	183.1%
Lending related expense	4,695	2,801	67.6%	8,603	5,608	53.4%

Wealth management related expense	465	323	44.0%	987	718	37.5%
Other noninterest expense	6,131	4,478	36.9%	11,601	7,757	49.6%
Total other noninterest expense	$17,369	$9,406	385.4%	$32,944	$18,235	323.6%
Total noninterest expense	$108,005	$68,580	57.5%	$211,237	$129,962	62.5%

Total salaries and employee benefits expenses increased approximately $20.4 million and $45.8 million, respectively, for the three and six months ended June 30, 2018 compared to the same periods in 2017, primarily the result of our annual merit increases that are effective on January 1 of each year as well as our acquisition with BNC on June 16, 2017. At June 30, 2018, our associate base was 2,198.5 full-time equivalent associates as compared to 2,222.5 at June 30, 2017. At June 30, 2018, the Carolinas and Virginia represented approximately 837.5 full-time equivalent associates. We expect salary and benefit expenses will continue to rise as we hire

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more experienced bankers throughout our expanded franchise or new markets in which we might expand and add associates resulting from mergers and/or acquisitions.

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We believe that cash and equity incentives are a valuable tool in motivating an associate base that is focused on providing our clients effective financial advice and increasing shareholder value. As a result, and unlike many other financial institutions, all of our non-commissioned associates participate in our annual cash incentive plan with a minimum targeted bonus equal to 10% of each associate's annual salary, and all of our associates participate in our equity compensation plans. Under the annual cash incentive plan, the targeted level of incentive payments requires achievement of a certain soundness threshold and a targeted level of revenues and earnings (subject to certain adjustments). To the extent that the soundness threshold is met and revenues and earnings are above or below the targeted amount, the aggregate incentive payments are increased or decreased. Historically, we have paid between 0% and 125% of our targeted incentives. For the second quarter of 2018, we accrued incentive costs for the cash incentive plan in 2018 at 80% of our targeted awards.

Also included in employee benefits and other expense for the three and six months ended June 30, 2018 were approximately $4.3 million and $8.8 million, respectively, of compensation expenses related to equity-based awards for restricted shares or restricted share units, including those with performance-based vesting criteria compared to $3.7 million and $7.1 million, respectively, for the three and six months ended June 30, 2017. We have not issued stock options since 2008. Under our equity incentive plans, we provide a broad-based equity incentive program for all associates. We believe that equity incentives provide a vehicle for all associates to become meaningful shareholders of Pinnacle Financial over an extended period of time and create a shareholder-centric culture throughout our organization. Our compensation expense associated with equity awards for the three and six months ended June 30, 2018 increased when compared to the three and six months ended June 30, 2017 as a result of the additional associates we have hired since June 30, 2017, primarily in connection with our acquisition of BNC. We expect our compensation expense associated with equity awards to continue to increase in 2018 when compared to 2017 as a result of the equity awards we have issued to BNC associates and our intention to hire additional experienced financial advisors during the remainder of 2018. Employee benefits and other expenses also includes costs associated with our 401k plan, health insurance, and payroll taxes.

Equipment and occupancy expenses for the three and six months ended June 30, 2018 increased $7.5 million and $15.6 million, respectively, as compared to the same periods in the prior year due to our BNC merger, including the completion and opening of an office in North Carolina in 2018, and two new locations opened in our Tennessee markets in the latter part of 2017. However, we believe the number of our locations will expand over an extended period time, particularly in our Tennessee markets. In future periods, these expansions may lead to higher equipment and occupancy expenses as well as related increases in salaries and benefits expense. There are no current plans to materially expand our branch distribution in the Carolinas and Virginia.

Marketing and business development expense for the three and six months ended June 30, 2018 was $2.5 million and $4.8 million, respectively, compared to $2.1 million and $4.0 million, respectively, for the three and six months ended June 30, 2017. The primary source of the increase in 2018 as compared to 2017 is related to our merger with BNC and the associated marketing and business development expenses for the expanded footprint.

Intangible amortization expense was $2.7 million and $5.4 million, respectively, for the three and six months ended June 30, 2018 compared to $1.5 million and $2.7 million for the same periods in 2017. The following table outlines our amortizing intangible assets, their initial valuation and amortizable lives at June 30, 2018:

	Year acquired	Initial Valuation (in millions)	Amortizable Life (in years)	Remaining Value (in millions)
Core Deposit Intangible:				
CapitalMark	2015	6.2	7	2.1
Magna Bank	2015	3.2	6	0.9

Avenue	2016	8.8	9	5.4
BNC	2017	48.1	10	40.4
Book of Business Intangible:				
Miller Loughry Beach Insurance	2008	1.3	20	0.3
CapitalMark	2015	0.3	16	0.2
BNC Insurance	2017	0.4	20	0.4
BNC Trust	2017	1.9	10	1.7

These assets are being amortized on an accelerated basis which reflects the anticipated life of the underlying assets. Amortization expense is estimated to decrease from $9.8 million to $5.0 million per year over the next 5 years with lesser amounts for the remaining amortization period.

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During the three and six months ended June 30, 2018, merger-related expenses were $2.9 million and $8.3 million, respectively, compared to $3.2 million and $3.9 million, respectively, for the three and six months ended June 30, 2017. In each of these periods, merger-related expenses incurred were associated with our merger with BNC. Merger-related expenses during the six months ended June 30, 2018 and 2017 were inclusive of costs associated with associate retention packages and cultural and technology integrations.

Deposit related expense increased by $4.3 million and $7.6 million, respectively, during the three and six months ended June 30, 2018 when compared to the same periods in 2017. This increase is primarily the result of increases in FDIC insurance premiums of $3.1 million and $5.5 million in the three and six months ended June 30, 2018, respectively. Lending and wealth management related expenses each increased during the three and six months ended June 30, 2018 when compared to the same periods in 2017. These increases are directly correlated with increased lending and wealth management activities during the respective periods.

Total other noninterest expenses increased by $3.8 million and $1.7 million, respectively, during the three and six months ended June 30, 2018 when compared to the same periods in 2017. This increase is due to a variety of factors and includes increases in audit and consulting fees, increased regulatory exam fees and increased state franchise tax expense.

Our efficiency ratio (ratio of noninterest expense to the sum of net interest income and noninterest income) was 48.2% and 48.9%, respectively, for the three and six months ended June 30, 2018 compared to 50.7% and 51.3%, respectively, for the three and six months ended June 30, 2017. The efficiency ratio measures the amount of expense that is incurred to generate a dollar of revenue.

Income Taxes. During the three and six months ended June 30, 2018, Pinnacle Financial recorded income tax expense of $23.0 million and $42.6 million, respectively, compared to $20.0 million and $33.8 million, respectively, for the three and six months ended June 30, 2017. Pinnacle Financial's effective tax rate for the three and six months ended June 30, 2018 was 20.9% and 20.0%, respectively, compared to 31.7% and 29.0%, respectively, for the three and six months ended June 30, 2017, primarily due to the reduction in the federal statutory corporate tax rate following enactment of the Tax Cuts and Jobs Act. Pinnacle Financial's effective tax rate differs from the combined federal and state income tax statutory rate in effect of 26.14% and 39.23%, during the respective periods, primarily due to state excise tax expense, our investments in bank-qualified municipal securities, tax benefits from our real estate investment trust subsidiary, participation in Tennessee's Community Investment Tax Credit (CITC) program, tax benefits associated with bank-owned life insurance and tax savings from our captive insurance subsidiary, offset in part by the limitation on deductibility of meals and entertainment expense and non-deductible FDIC insurance premiums. Periodic income tax expense is also impacted upon the vesting of restricted share awards and the exercise of employee stock options and is recorded as a discrete item as a component of total income tax. Income tax expense was reduced by $72,000 and $2.8 million, respectively, for the three and six months ended June 30, 2018 compared to a reduction of $789,000 and $4.6 million, respectively, for the three and six months ended June 30, 2017, resulting from the vesting of such awards.

Tax Cuts and Jobs Act. On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. Among other items, the Tax Cuts and Jobs Act reduced the corporate Federal tax rate from 35% to 21%. As a result of such decrease, we recognized a charge of $31.5 million in the fourth quarter of 2017 resulting from the revaluation of our deferred tax assets.

Under the Tax Cuts and Jobs Act, the qualified performance-based compensation exception to Section 162(m) that generally provided for the continued deductibility of performance-based compensation was repealed, effective for tax years commencing on or after January 1, 2018. Accordingly, commencing with our fiscal year ending December 31, 2018, compensation to our named executive officers in excess of $1,000,000 not awarded as performance-based compensation under binding agreements in effect as of November 2, 2017 will generally not be deductible, which will likely partially offset the expected reduction in our income tax expense resulting from the rate cut under the Tax Cuts and Jobs Act. Performance based compensation (meeting the requirements of Section 162(m) prior to amendment with the Tax Cuts and Jobs Act) that is earned on awards issued pursuant to binding agreements in effect as of November 2, 2017 will retain its status as tax deductible.

Financial Condition

Our consolidated balance sheet at June 30, 2018 reflects an increase in total loans outstanding to $17.04 billion compared to $15.63 billion at December 31, 2017. Total deposits increased by $1.41 billion between December 31, 2017 and June 30, 2018. Total assets were $23.99 billion at June 30, 2018 compared to $22.20 billion at December 31, 2017.

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Loans. The composition of loans at June 30, 2018 and at December 31, 2017 and the percentage (%) of each classification to total loans are summarized as follows (dollars in thousands):

	June 30, 2018		December 31, 2017	
	Amount	Percent	Amount	Percent
Commercial real estate – mortgage	$7,024,639	41.2 %	$6,669,610	42.7 %
Consumer real estate – mortgage	2,699,399	15.8 %	2,561,214	16.4 %
Construction and land development	2,133,646	12.5 %	1,908,288	12.2 %
Commercial and industrial	4,821,299	28.3 %	4,141,341	26.5 %
Consumer and other	363,870	2.2 %	352,663	2.2 %
Total loans	$17,042,853	100.0%	$15,633,116	100.0%

The composition of our loan portfolio has changed due to our merger with BNC, which had more of a commercial real estate focus, including construction, than we did in our legacy Tennessee markets. As we intend to focus on growth of the commercial and industrial segment in our expanded footprint, we continue to believe our commercial and industrial portfolio will again become a more substantial portion of our total loan portfolio. The commercial real estate – mortgage category includes owner-occupied commercial real estate loans. At June 30, 2018, approximately 35.7% of the outstanding principal balance of our commercial real estate - mortgage loans was secured by owner-occupied commercial real estate properties. Owner-occupied commercial real estate is similar in many ways to our commercial and industrial lending in that these loans are generally made to businesses on the basis of the cash flows of the business rather than on the valuation of the real estate. Growth in the construction and land development loan segment reflects the development growth of the local economies in which we operate and is diversified between commercial, residential and land.

Pinnacle Financial monitors two ratios regarding construction and commercial real estate lending as part of its concentration management processes. Both ratios are calculated by dividing certain types of loan balances for each of the two categories by Pinnacle Bank's total risk-based capital. At June 30, 2018 and December 31, 2017, Pinnacle Bank's construction and land development loans as a percentage of total risk-based capital were 94.6% and 89.4%, respectively. Non-owner occupied commercial real estate and multifamily loans (including construction and land development loans) as a percentage of total risk-based capital were 304.3% and 297.1% as of June 30, 2018 and December 31, 2017, respectively. Banking regulations have established guidelines for the construction ratio of less than 100% of total risk-based capital and for the non-owner occupied ratio of less than 300% of total risk-based capital. When a bank's ratios are in excess of one or both of these guidelines, banking regulations generally require an increased level of monitoring in these lending areas by bank management. At June 30, 2018, we slightly exceeded the 300% guideline and have established what we believe to be appropriate controls to monitor our lending in this area as we aim to reduce the level of these loans to below the 300% threshold by the end of 2018.

The following table classifies our fixed and variable rate loans at June 30, 2018 according to contractual maturities of (1) one year or less, (2) after one year through five years, and (3) after five years. The table also classifies our variable rate loans pursuant to the contractual repricing dates of the underlying loans (dollars in thousands):

	Amounts at June 30, 2018			Percentage	Percentage
	Fixed Rates	Variable Rates	Totals	At June 30, 2018	At December 31, 2017
Based on contractual maturity:					
Due within one year	$839,526	$2,327,886	$3,167,412	18.6%	18.2%
Due in one year to five years	4,501,214	3,831,770	$8,332,984	48.9%	48.2%
Due after five years	2,645,321	2,897,136	$5,542,457	32.5%	33.6%
Totals	$7,986,061	$9,056,792	$17,042,853	100.0%	100.0%

Based on contractual repricing dates:

Daily floating rate (*)	$—	$2,670,704	$2,670,704	15.7%	16.4%
Due within one year	841,603	5,834,682	6,676,285	39.2%	37.8%
Due in one year to five years	4,501,214	346,385	4,847,599	28.4%	28.4%
Due after five years	2,643,244	205,021	2,848,265	16.7%	17.4%
Totals	$7,986,061	$9,056,792	$17,042,853	100.0%	100.0%

The above information does not consider the impact of scheduled principal payments.

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(*) Daily floating rate loans are tied to Pinnacle Bank's prime lending rate or a national interest rate index with the underlying loan rates changing in relation to changes in these indexes. Included in variable rate loans are $135.6 million of loans which are currently priced at their contractual floors with a weighted average rate of 5.47%. The weighted average contractual rate on these loans is 4.96%. As a result, interest income on these loans will not change until the contractual rate on the underlying loan exceeds the interest rate floor.

Accruing Loans in Past Due Status. The following table is a summary of our accruing loans that were past due at least 30 days but less than 89 days and 90 days or more past due as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018		December 31, 2017	
Accruing loans past due 30 to 89 days:				
Commercial real estate – mortgage	$9,149		$23,331	
Consumer real estate – mortgage	14,093		14,835	
Construction and land development	2,725		4,136	
Commercial and industrial	5,755		7,406	
Consumer and other	5,088		6,311	
Total accruing loans past due 30 to 89 days	$36,810		$56,019	
Accruing loans past due 90 days or more:				
Commercial real estate – mortgage	$—		$104	
Consumer real estate – mortgage	—		1,265	
Construction and land development	—		146	
Commercial and industrial	875		1,348	
Consumer and other	697		1,276	
Total accruing loans past due 90 days or more	$1,572		$4,139	
Ratios:				
Accruing loans past due 30 to 89 days as a percentage of total loans	0.22	%	0.36	%
Accruing loans past due 90 days or more as a percentage of total loans	0.01	%	0.02	%
Total accruing loans in past due status as a percentage of total loans	0.23	%	0.38	%

Potential Problem Loans. Potential problem loans, which are not included in nonperforming assets, amounted to approximately $170.8 million, or 1.0% of total loans at June 30, 2018, compared to $164.0 million, or 1.1% of total loans at December 31, 2017. 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 substandard nonaccrual loans and substandard troubled debt restructurings. Troubled debt restructurings are not included in potential problem loans. Approximately $5.8 million of potential problem loans were past due at least 30 days but less than 90 days as of June 30, 2018.

Nonperforming Assets and Troubled Debt Restructurings. At June 30, 2018, we had $91.1 million in nonperforming assets compared to $85.5 million at December 31, 2017. Included in nonperforming assets were $70.9 million in nonaccrual loans and $20.2 million in OREO and other nonperforming assets at June 30, 2018 and $57.5 million in nonaccrual loans and $28.0 million in OREO and other nonperforming assets at December 31, 2017. At June 30, 2018 and December 31, 2017, there were $5.6 million and $6.6 million, respectively, of troubled debt restructurings, all of which were accruing as of the restructured date and remain on accrual status but are considered impaired loans pursuant to U.S. GAAP.

Allowance for Loan Losses (allowance). We maintain the allowance at a level that our management deems appropriate to adequately cover the probable losses inherent in the loan portfolio. As of June 30, 2018 and December 31, 2017, our allowance for loan losses was approximately $75.7 million and $67.2 million, respectively, which our management deemed to be adequate at each of the respective dates. Our allowance for loan losses is adjusted to an amount that our management deems appropriate to adequately cover the probable losses in the loan portfolio based on our allowance for loan loss methodology. Our allowance for loan losses as a percentage of total loans was 0.44% at June 30, 2018 up slightly from 0.43% at December 31, 2017. As a result of our acquired loan portfolios being recorded at fair value upon acquisition, no allowance for loan losses is assigned to purchased loans as of the date of acquisition. However, an allowance for loan losses is recorded for purchased loans that have experienced credit deterioration subsequent to acquisition or increases in balances outstanding.

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As of June 30, 2018, net loans included a remaining net fair value discount of $132.1 million. For the six months ended June 30, 2018, the net fair value discount changed as follows:

	Accretable Yield	Nonaccretable Yield	Total
December 31, 2017	$132,002	$ 31,537	163,539
Acquisitions	—	—	—
Year-to-date accretion and settlements	(28,050)	(3,346)	(31,396)
June 30, 2018	$103,952	$ 28,191	$132,143

The following table sets forth, based on management's estimate, the allocation of the allowance for loan losses to categories of loans as well as the unallocated portion as of June 30, 2018 and December 31, 2017 and the percentage of loans in each category to total loans (dollars in thousands):

	June 30, 2018		December 31, 2017	
	Amount	Percent	Amount	Percent
Commercial real estate - mortgage	$24,848	41.2 %	$21,188	42.7 %
Consumer real estate - mortgage	5,853	15.8 %	5,031	16.4 %
Construction and land development	10,984	12.5 %	8,962	12.2 %
Commercial and industrial	28,338	28.3 %	24,863	26.5 %
Consumer and other	5,172	2.2 %	5,874	2.2 %
Unallocated	475	NA	1,322	NA
Total allowance for loan losses	$75,670	100.0%	$67,240	100.0%

The following is a summary of changes in the allowance for loan losses for the six months ended June 30, 2018 and for the year ended December 31, 2017 and the ratio of the allowance for loan losses to total loans as of the end of each period (dollars in thousands):

	Six months ended June 30, 2018	Year ended December 31, 2017
Balance at beginning of period	$67,240	$58,980
Provision for loan losses	16,333	23,664
Charged-off loans:		
Commercial real estate – mortgage	(962)	(633)
Consumer real estate – mortgage	(1,271)	(1,461)
Construction and land development	(12)	(137)
Commercial and industrial	(4,264)	(4,297)
Consumer and other loans	(8,858)	(15,518)
Total charged-off loans	(15,367)	(22,046)
Recoveries of previously charged-off loans:		
Commercial real estate – mortgage	1,454	671
Consumer real estate – mortgage	1,203	1,516
Construction and land development	1,575	1,136
Commercial and industrial	1,455	1,317
Consumer and other loans	1,777	2,002
Total recoveries of previously charged-off loans	7,464	6,642
Net charge-offs	(7,903)	(15,404)

Balance at end of period	$75,670	$67,240
Ratio of allowance for loan losses to total loans outstanding at end of period	0.44 %	0.43 %
Ratio of net charge-offs to average total loans outstanding for the period [1]	0.10 %	0.13 %

(1)Net charge-offs for the year-to-date period ended June 30, 2018 have been annualized.

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Management assesses the adequacy of the allowance prior to the end of each calendar quarter. This assessment includes procedures to estimate the allowance and test the adequacy and appropriateness of the resulting balance. The level of the allowance is based upon management's evaluation of the loan portfolios, past loan loss experience, known and inherent risks in the portfolio, the views of Pinnacle Bank's regulators, adverse situations that may affect the borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, industry and peer bank loan quality indications and other pertinent factors. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. For further discussion regarding our allowance for loan losses, refer to Critical Accounting Estimates included in the 2017 10-K.

Based upon our evaluation of the loan portfolio, we believe the allowance for loan losses to be adequate to absorb our estimate of inherent losses existing in the loan portfolio at June 30, 2018. While our policies and procedures used to estimate the allowance for loan losses as well as the resultant provision for loan losses charged to operations are considered adequate by management, they are necessarily approximate and imprecise. There are factors beyond our control, such as conditions in the local and national economy, local real estate market or a particular industry or borrower which may negatively impact, materially, our asset quality and the adequacy of our allowance for loan losses and, thus, the resulting provision for loan losses.

Investments. Our investment portfolio, consisting primarily of Federal agency bonds, mortgage-backed securities, and state and municipal securities amounted to $2.98 billion and $2.54 billion at June 30, 2018 and December 31, 2017, respectively. Our investment portfolio serves many purposes including serving as a stable source of income, as collateral for public funds deposits and as a potential liquidity source. A summary of our investment portfolio at June 30, 2018 and December 31, 2017 follows:

	June 30, 2018	December 31, 2017
Weighted average life	6.73 years	6.29 years
Effective duration	3.90%	3.49%
Tax equivalent yield	2.91%	2.68%

Deposits and Other Borrowings. We had approximately $17.86 billion of deposits at June 30, 2018 compared to $16.45 billion at December 31, 2017. Our deposits consist of noninterest and interest-bearing demand accounts, savings accounts, money market accounts and time deposits. Additionally, we entered into agreements with certain customers to sell certain securities under agreements to repurchase the security the following day. These agreements (which are typically associated with comprehensive treasury management programs for our clients and provide them with short-term returns for their excess funds) amounted to $128.7 million at June 30, 2018 and $135.3 million at December 31, 2017. Additionally, at June 30, 2018 and December 31, 2017, Pinnacle Bank had borrowed $1.58 billion and $1.32 billion, respectively, in advances from the Federal Home Loan Bank of Cincinnati (FHLB). At June 30, 2018, Pinnacle Bank also had approximately $4.1 billion in additional availability with the FHLB; however, incremental borrowings are made in a formal request by Pinnacle Bank and the subsequent approval by the FHLB.

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Generally, we have classified our funding base as either core funding or non-core funding as shown in the table below. The following table represents the balances of our deposits and other funding and the percentage of each type to the total at June 30, 2018 and December 31, 2017:

	June 30, 2018	Percent	December 31, 2017	Percent
Core funding:				
Noninterest-bearing deposit accounts	$4,361,414	21.8%	$4,381,386	23.9%
Interest-bearing demand accounts	2,662,830	13.3%	2,756,505	15.0%
Money Market accounts	6,457,867	32.2%	5,847,650	31.8%
Time deposit accounts less than $250,000	1,423,038	7.1%	1,260,162	6.9%
Reciprocating demand deposit accounts (1)	64,154	0.3%	77,472	0.4%
Reciprocating savings accounts (1)	361,054	1.8%	408,806	2.2%
Reciprocating CD accounts (1)	69,785	0.4%	106,227	0.6%
Total core funding	15,400,142	76.9%	14,838,208	80.8%
Non-core funding:				
Relationship based non-core funding:				
Other time deposits	595,897	3.0%	444,951	2.4%
Securities sold under agreements to repurchase	128,739	0.6%	135,262	0.8%
Total relationship based non-core funding	724,636	3.6%	580,213	3.2%
Wholesale funding:				
Brokered deposits	523,263	2.6%	445,822	2.4%
Brokered time deposits	1,338,116	6.7%	722,721	3.9%
Federal Home Loan Bank advances	1,581,867	7.9%	1,319,909	7.2%
Subordinated debt- Pinnacle Bank	127,852	0.6%	127,727	0.7%
Subordinated debt- Pinnacle Financial	337,581	1.7%	337,778	1.8%
Total wholesale funding	3,908,679	19.5%	2,953,957	16.0%
Total non-core funding	4,633,315	23.1%	3,534,170	19.2%
Totals	$20,033,457	100.0%	$18,372,378	100.0%

(1) The reciprocating categories consists of deposits we receive from a bank network (the Promontory network) in connection with deposits of our customers in excess of our FDIC coverage limit that we place with the Promontory network.

As noted in the table above, our core funding as a percentage of total funding decreased from 80.8% at December 31, 2017 to 76.9% at June 30, 2018, primarily as a result of our increased FHLB advances and increased levels of brokered deposits. Core deposits at December 31, 2017 have been restated from prior presentation for the recent regulatory changes that allow for the treatment of reciprocal deposits as core funding.

When wholesale funding is necessary to complement the company's core deposit base, management determines which source is best suited to address both liquidity risk management and interest rate risk management objectives. We increased our exposure to brokered deposits in the first half of 2018 as a measure to diversify wholesale funding sources. Our Asset Liability Management Policy institutes limitations on overall wholesale funding reliance and on brokered deposit exposure specifically. Both our overall reliance on wholesale funding and exposure to brokered deposits were within those policy limitations as of June 30, 2018.

Our funding policies impose limits on the amount of non-core funding we can utilize based on the non-core funding dependency ratio which is calculated pursuant to regulatory guidelines. Periodically, we may exceed our policy limitations, at which time management will develop plans to bring our funding sources back into compliance with our core funding ratios. At June 30, 2018 and December 31, 2017, we were in compliance with our core funding policies.

Growing our core deposit base is a key strategic objective of our firm. Our current growth plans contemplate that we may increase our non-core funding amounts from current levels, but we do not currently anticipate that such increases will exceed our internal policies.

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The amount of time deposits as of June 30, 2018 amounted to $3.4 billion. The following table shows our time deposits in denominations of $100,000 and less and in denominations greater than $100,000 by category based on time remaining until maturity and the weighted average rate for each category as of June 30, 2018 (in thousands):

	Balances	Weighted Avg. Rate	
Denominations less than $100,000			
Three months or less	$284,978	1.18	%
Over three but less than six months	335,506	1.58	%
Over six but less than twelve months	579,957	1.79	%
Over twelve months	646,115	2.12	%
	$1,846,556	1.77	%
Denominations $100,000 and greater			
Three months or less	$271,028	1.07	%
Over three but less than six months	350,520	1.21	%
Over six but less than twelve months	487,329	1.61	%
Over twelve months	471,403	1.96	%
	$1,580,280	1.53	%
Totals	$3,426,836	1.66	%

Subordinated debt and other borrowings. We have entered into and acquired a number of statutory business trusts which were established to issue 30-year trust preferred securities and related junior subordinated debt instruments and certain other subordinated debt agreements. We also have a $75.0 million revolving credit facility, which we have not drawn upon as of June 30, 2018 and which matures on April 25, 2019. These instruments are outlined below (in thousands):

Name	Date Established	Maturity	Total Debt Outstanding	Interest Rate at June 30, 2018		Coupon Structure
Trust preferred securities						
Pinnacle Statutory Trust I	December 29, 2003	December 30, 2033	$ 10,310	5.13	%	30-day LIBOR + 2.80%
Pinnacle Statutory Trust II	September 15, 2005	September 30, 2035	20,619	3.74	%	30-day LIBOR + 1.40%
Pinnacle Statutory Trust III	September 7, 2006	September 30, 2036	20,619	3.99	%	30-day LIBOR + 1.65%
Pinnacle Statutory Trust IV	October 31, 2007	September 30, 2037	30,928	5.19	%	30-day LIBOR + 2.85%
BNC Capital Trust I	April 3, 2003	April 15, 2033	5,155	5.60	%	30-day LIBOR + 3.25%
BNC Capital Trust II	March 11, 2004	April 7, 2034	6,186	5.20	%	30-day LIBOR + 2.85%
BNC Capital Trust III	September 23, 2004	September 23, 2034	5,155	4.75	%	30-day LIBOR + 2.40%
BNC Capital Trust IV	September 27, 2006	December 31, 2036	7,217	4.04	%	30-day LIBOR + 1.70%
Valley Financial Trust I	June 26, 2003	June 26, 2033	4,124	5.44	%	30-day LIBOR + 3.10%
Valley Financial Trust II			7,217	3.83	%	

	September 26, 2005	December 15, 2035			30-day LIBOR + 1.49%
Valley Financial Trust III	December 15, 2006	January 30, 2037	5,155	4.09 %	30-day LIBOR + 1.73%
Southcoast Capital Trust III	August 5, 2005	September 30, 2035	10,310	3.84 %	30-day LIBOR + 1.50%
Subordinated Debt					
Pinnacle Bank Subordinated Notes	July 30, 2015	July 30, 2025	60,000	4.88 %	Fixed (1)
Pinnacle Bank Subordinated Notes	March 10, 2016	July 30, 2025	70,000	4.88 %	Fixed (1)
Avenue Subordinated Notes	December 29, 2014	December 29, 2024	20,000	6.75 %	Fixed (2)
Pinnacle Financial Subordinated Notes	November 16, 2016	November 16, 2026	120,000	5.25 %	Fixed (3)
BNC Subordinated Notes	September 25, 2014	October 1, 2024	60,000	5.50 %	Fixed (4)
BNC Subordinated Note	October 15, 2013	October 15, 2023	10,430	6.98 %	30-day LIBOR + 5.00% (5)
Other Borrowings					
Revolving credit facility (6)	April 26, 2018	April 25, 2019	—	—	30-day LIBOR + 1.75%
Debt issuance costs and fair value adjustments			(7,992)		
Total subordinated debt and other borrowings			$ 465,433		

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(1) Migrates to three month LIBOR + 3.128% beginning July 30, 2020 through the end of the term.
(2) Migrates to three month LIBOR + 4.95% beginning January 1, 2020 through the end of the term.
(3) Migrates to three month LIBOR + 3.884% beginning November 16, 2021 through the end of the term.
(4) Migrates to three month LIBOR + 3.59% beginning October 1, 2019 through the end of the term if not redeemed on that date.
(5) Coupon structure includes a floor of 5.5% and a cap of 9.5%.
(6) Borrowing capacity on the revolving credit facility is $75.0 million. At June 30, 2018, there was no outstanding balance under this facility. An unused fee of 0.35% is assessed on the average daily unused amount of the loan.

Following the merger with BNC and as a result of that merger, Pinnacle Financial's total assets were in excess of $15.0 billion which caused the subordinated debentures Pinnacle Financial and BNC issued to cease to qualify as Tier 1 capital under applicable banking regulations. Though these securities no longer qualify as Tier 1 capital, Pinnacle Financial believes these subordinated debentures continue to qualify as Tier 2 capital.

Capital Resources. At June 30, 2018 and December 31, 2017, our shareholders' equity amounted to $3.83 billion and $3.71 billion, respectively, an increase of approximately $118.7 million. The increase is attributable to net income and equity compensation partially offset by a decrease in our other comprehensive income.

Dividends. Pursuant to Tennessee banking law, our bank may not, without the prior consent of the TDFI, pay any dividends to us in a calendar year in excess of the total of our bank's retained net profits for that year plus the retained net profits for the preceding two years, which was $415.3 million at June 30, 2018. During the three and six months ended June 30, 2018, our bank paid dividends of $25.5 million and $50.5 million, respectively, to us which is within the limits allowed by the TDFI.

During the three and six months ended June 30, 2018, we paid $11.0 million and $21.9 million, respectively, in dividends to our common shareholders. On July 17, 2018, our board of directors declared a $0.14 quarterly cash dividend to common shareholders which should approximate $11.0 million in aggregate dividend payments that are expected to be paid on August 31, 2018 to common shareholders of record as of the close of business on August 3, 2018. The amount and timing of all future dividend payments, if any, is subject to board discretion and will depend on our earnings, capital position, financial condition and other factors, including regulatory capital requirements, as they become known to us.

Market and Liquidity Risk Management

Our objective is to manage assets and liabilities to provide a satisfactory, consistent level of profitability within the framework of established liquidity, loan, investment, borrowing, and capital policies. Our Asset Liability Management Committee (ALCO) is charged with the responsibility of monitoring these policies, which are designed to ensure acceptable composition of asset/liability mix. Two critical areas of focus for ALCO are interest rate sensitivity and liquidity risk management.

Interest Rate Sensitivity. In the normal course of business, we are exposed to market risk arising from fluctuations in interest rates. ALCO measures and evaluates the interest rate risk so that we can meet customer demands for various types of loans and deposits. ALCO determines the most appropriate amounts of on-balance sheet and off-balance sheet items. Measurements which we use to help us manage interest rate sensitivity include an earnings simulation model and an economic value of equity (EVE) model.

Our interest rate sensitivity modeling incorporates a number of assumptions for both earnings simulation and EVE, including loan and deposit re-pricing characteristics, the rate of loan prepayments, etc. ALCO periodically reviews these assumptions for accuracy based on historical data and future expectations. Our ALCO policy requires that the base scenario assume rates remain flat and is the scenario to which all others are compared in order to measure the change in net interest income and EVE. Policy limits are applied to the results of certain modeling scenarios. While the primary policy scenarios focus is on a twelve month time frame for the earnings simulations model, longer time horizons are also modeled. All policy scenarios assume a static volume forecast where the balance sheet is held constant, although other scenarios are modeled.

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Earnings simulation model. We believe interest rate risk is best measured by our earnings simulation modeling. Earning assets, interest-bearing liabilities and off-balance sheet financial instruments are combined with forecasts of interest rates for the next 12 months and are combined with other factors in order to produce various earnings simulations over that same 12-month period. To limit interest rate risk, we have policy guidelines for our earnings at risk which seek to limit the variance of net interest income in both gradual and instantaneous changes to interest rates. For instantaneous upward changes in rates from management's flat interest rate forecast over the next twelve months, assuming a static balance sheet, the following changes are predicted:

	Estimated % Change in Net Interest Income Over 12 Months June 30, 2018
Instantaneous Rate Change	
100 bps increase	4.5 %
200 bps increase	7.9 %

While an instantaneous and severe shift in interest rates was used in this analysis to provide an estimate of exposure under these scenarios, we believe that a gradual shift in interest rates would have a more modest impact. Further, the earnings simulation model does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships, and changing product spreads that could mitigate the adverse impact of changes in interest rates.

At June 30, 2018, our earnings simulation model indicated we were in compliance with our policies for interest rate scenarios for which we model as required by our board approved Asset Liability Policy. The board has suspended the requirement to model down 300 and down 400 bps scenarios while 10 year maturity Treasury rates are below 3.0%, which was the case as of June 30, 2018.

Economic value of equity model. While earnings simulation modeling attempts to determine the impact of a changing rate environment to our net interest income, our EVE model measures estimated changes to the economic values of our assets, liabilities and off-balance sheet items as a result of interest rate changes. Economic values are determined by discounting expected cash flows from assets, liabilities and off-balance sheet items, which establishes a base case EVE. We then shock rates as prescribed by our Asset Liability Policy and measure the sensitivity in EVE values for each of those shocked rate scenarios versus the base case. The Asset Liability Policy sets limits for those sensitivities. At June 30, 2018, our EVE modeling indicates the following changes in EVE due to instantaneous upward changes in rates:

	June 30, 2018
Instantaneous Rate Change	
100 bps increase	(1.1 %)
200 bps increase	(4.0 %)

While an instantaneous and severe shift in interest rates was used in this analysis to provide an estimate of exposure under these scenarios, we believe that a gradual shift in interest rates would have a more modest impact. Since EVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in EVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon (i.e., the current year). Further, EVE does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships, and changing product spreads that could mitigate the adverse impact of changes in interest rates.

At June 30, 2018, our EVE model indicated we were in compliance with our policies for all interest rate scenarios for which we model as required by our board approved Asset Liability Policy. The board has suspended the requirement to model down 300 bps and down 400 bps scenarios while 10 year maturity Treasury rates are below 3.0%, which was the case as of June 30, 2018.

Most likely earnings simulation models. We also analyze a most-likely earnings simulation scenario that projects the expected change in rates based on a forward yield curve adopted by management using expected balance sheet volumes forecasted by management. Separate growth assumptions are developed for loans, investments, deposits, etc. Other interest rate scenarios analyzed by management may include delayed rate shocks, yield curve steepening or flattening, or other variations in rate movements to further analyze or stress our balance sheet under various interest rate scenarios. Each scenario is evaluated by management and weighted to determine the most likely result. These processes assist management to better anticipate the financial results of the Company and, as a result, management may determine the need to invest in other operating strategies and tactics which might enhance results or better position the firm's balance sheet to reduce interest rate risk going forward.

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Each of the above analyses may not, on its own, be an accurate indicator of how our net interest income will be affected by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market rates, while interest rates on other types may lag behind changes in general market rates. In addition, certain assets, such as adjustable rate mortgage loans, have features (generally referred to as interest rate caps and floors) which limit changes in interest rates. Prepayment and early withdrawal levels also could deviate significantly from those assumed in calculating the maturity of certain instruments. The ability of many borrowers to service their debts also may decrease during periods of rising interest rates. ALCO reviews each of the above interest rate sensitivity analyses along with several different interest rate scenarios as part of its responsibility to provide a satisfactory, consistent level of profitability within the framework of established liquidity, loan, investment, borrowing, and capital policies.

Management's model governance, model implementation and model validation processes and controls are subject to review in our regulatory examinations to ensure they are in compliance with the most recent regulatory guidelines and consistent with the best practices of our industry. Management utilizes a respected, sophisticated third party asset liability modeling software to help ensure implementation of management's assumptions into the model are processed as intended in a robust manner. That said, there are numerous assumptions regarding financial instrument behavior that are integrated into the model. The assumptions are formulated by combining observations gleaned from our historical studies of financial instruments and our best estimations of how, if at all, these instruments may behave in the future given changes in economic conditions, technology, etc. These assumptions may prove to be inaccurate. Additionally, given the large number of assumptions built into firm's asset liability modeling software, it is difficult, at best, to compare our results to other firms.

ALCO may determine that Pinnacle Financial should over time become more or less asset or liability sensitive depending on the underlying balance sheet circumstances and the firm's conclusions as to anticipated interest rate fluctuations in future periods. At present, ALCO has determined that its "most likely" rate scenario considers three additional increases in short-term interest rates in 2018. Our "most likely" rate forecast has been largely consistent over recent quarters and is based primarily on information we acquire from a service which includes a consensus forecast of numerous benchmarks. We may implement additional actions designed to achieve our desired sensitivity position.

We may also use derivative financial instruments to improve the balance between interest-sensitive assets and interest-sensitive liabilities as one tool to manage our interest rate sensitivity, including that inherent in our mortgage lending program, while continuing to meet the credit and deposit needs of our customers. We may also enter into interest rate swaps to facilitate customer transactions and meet their financing needs. These swaps qualify as derivatives, even though they are not designated as hedging instruments.

Liquidity Risk Management. The purpose of liquidity risk management is to ensure that there are sufficient cash flows to satisfy loan demand, deposit withdrawals, and our other needs. Traditional sources of liquidity for a bank include asset maturities and growth in core deposits. A bank may achieve its desired liquidity objectives from the management of its assets and liabilities and by internally generated funding through its operations. Funds invested in marketable instruments that can be readily sold and the continuous maturing of other earning assets are sources of liquidity from an asset perspective. The liability base provides sources of liquidity through attraction of increased deposits and borrowing funds from various other institutions.

To assist in determining the adequacy of our liquidity, we perform a variety of liquidity stress tests including idiosyncratic, systemic and combined scenarios for both moderate and severe events. Liquidity is defined as the ability to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining our ability to meet the daily cash flow requirements of our customers, both depositors and borrowers. We seek to maintain a sufficiently liquid asset balance to ensure our ability to meet our obligations. The amount of the appropriate minimum liquid asset balance is determined through severe liquidity stress testing as measured by our liquidity coverage ratio calculation. At June 30, 2018, we were in compliance with our liquidity coverage ratio.

Changes in interest rates also affect our liquidity position. We currently price deposits in response to market rates, and our management intends to continue this policy. If deposits are not priced in response to market rates, a loss of deposits could occur which would negatively affect our liquidity position.

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Scheduled loan payments are a relatively stable source of funds, but loan payoffs and deposit flows fluctuate significantly, being influenced by interest rates, general economic conditions and competition. Additionally, debt security investments are subject to prepayment and call provisions that could accelerate their payoff prior to stated maturity. We attempt to price our deposit products to meet our asset/liability objectives consistent with local market conditions. Our ALCO is responsible for monitoring our ongoing liquidity needs. Our regulators also monitor our liquidity and capital resources on a periodic basis.

In addition, our bank is a member of the FHLB Cincinnati. As a result, our bank receives advances from the FHLB Cincinnati, pursuant to the terms of various borrowing agreements, which assist it in the funding of its home mortgage and commercial real estate loan portfolios. Under the borrowing agreements with the FHLB Cincinnati, our bank has pledged certain qualifying residential mortgage loans and, pursuant to a blanket lien, all qualifying commercial mortgage loans as collateral. As such, Pinnacle Bank may use the FHLB Cincinnati as a source of liquidity depending on its ALCO strategies. Additionally, we may pledge additional qualifying assets or reduce the amount of pledged assets with the FHLB Cincinnati to increase or decrease our borrowing capacity with the FHLB Cincinnati. At June 30, 2018, we estimate we had $4.1 billion in additional borrowing capacity with the FHLB Cincinnati. However, incremental borrowings are made via a formal request by Pinnacle Bank and the subsequent approval by the FHLB Cincinnati. At June 30, 2018, our bank had received advances from the FHLB Cincinnati totaling $1.58 billion. At June 30, 2018, the scheduled maturities of Pinnacle Bank's FHLB Cincinnati advances and interest rates are as follows (in thousands):

Scheduled Maturities	Amount	Interest Rates [1]
2018	$231,250	1.77%
2019	503,000	1.87%
2020	407,600	2.02%
2021	398,750	2.44%
2022	41,250	2.85%
Thereafter	17	2.75%
Total	$1,581,867	
Weighted average interest rate		2.06%

(1)Some FHLB Cincinnati advances include variable interest rates and could increase in the future. The table reflects rates in effect as of June 30, 2018.

Pinnacle Bank also has accommodations with upstream correspondent banks available for unsecured short-term advances which aggregate $170.0 million. These accommodations have various covenants related to their term and availability, and in most cases must be repaid within a month of borrowing. We had no outstanding borrowings at June 30, 2018 under these agreements. Our bank also has approximately $3.10 billion in available Federal Reserve discount window lines of credit.

At June 30, 2018, excluding reciprocating time deposits issued through the Promontory Network, we had $1.86 billion of brokered deposits. During the second quarter, we moved some of our non-core funding from the FHLB and into brokered CDs in order to realize more efficient pricing. Historically, we have issued brokered certificates of deposit through several different brokerage houses based on competitive bid.

Industry regulators have defined additional liquidity guidelines, through the issuance of the Basel III Liquidity Coverage Ratio (LCR) and the Modified LCR, for banking institutions greater than $250 billion in assets, and $50 billion in assets respectively, in the United States. These regulatory guidelines became effective January 2015 with phase in over subsequent years and require these large institutions to follow prescriptive guidance in determining an absolute level of a high quality liquid asset (HQLA) buffer that must be maintained on their balance sheets in order to withstand a potential liquidity crisis event. Although Pinnacle Financial follows the principles outlined in the

Interagency Policy Statement on Liquidity Risk Management, issued March 2010, to determine its HQLA buffer, Pinnacle Financial is not currently subject to these regulations. However, these formulas could eventually be imposed on smaller banks, such as Pinnacle Bank, and require an increase in the absolute level of liquidity on our balance sheet, which could result in lower net interest margins for us in future periods.

At June 30, 2018, we had no significant commitments for capital expenditures. However, we believe the number of our locations will expand over an extended period time, particularly in our Tennessee markets. In future periods, these expansions may lead to higher equipment and occupancy expenses as well as related increases in salaries and benefits expense. There are no current plans to materially expand our branch distribution in the Carolinas and Virginia.

Off-Balance Sheet Arrangements. At June 30, 2018, we had outstanding standby letters of credit of $175.9 million and unfunded loan commitments outstanding of $6.32 billion. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, Pinnacle Bank has the ability to liquidate Federal funds sold or, on a short-term basis, to borrow and purchase Federal funds from other financial institutions.

Impact of Inflation

The consolidated financial statements and related consolidated financial data presented herein have been prepared in accordance with U.S. GAAP and practices within the banking industry which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation.

Recently Adopted Accounting Pronouncements

In August 2017, the FASB issued Accounting Standards Update No. 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities. The amendments in this ASU make more financial and non-financial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. The amendments will be effective for public companies for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. Pinnacle Financial early adopted this standard in the first quarter of 2018 and subsequently entered into two hedging transactions during the six months ended June 30, 2018, and one additional hedging transaction in July 2018, all of which are eligible for hedge accounting as a result of the new standard, as noted in Note 9. Derivative Instruments.

In March 2017, the FASB issued Accounting Standards Update No. 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The amendment in this ASU shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. The amendment does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted with modified retrospective application. Pinnacle Financial elected to early adopt this standard in the first quarter of 2018 and it continues to have no material impact to its financial statements.

In January 2017, the FASB issued Accounting Standards Update 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendment in this ASU clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those periods. There has been no material impact on Pinnacle Financial's consolidated financial statements due to the adoption of this standard in the first quarter of 2018.

In August 2016, the FASB issued Accounting Standards Update 2016-15, Statement of Cash Flows (Topic 230) intended to reduce the diversity in practice around how certain transactions are classified within the statement of cash flows. The guidance became effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Pinnacle Financial adopted this standard in the first quarter of 2018 and it continues to have no material impact to its financial statements, with the exception of dividends received from its and Pinnacle Bank's equity method investments which were reclassified from cash flow from investments to operating cash flow.

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In January 2016, the FASB issued Accounting Standards Update 2016-01, Financial Instruments – Overall (Subtopic 825-10) which, among other things, (i) requires equity investments, excluding those accounted for under the equity method or that result in consolidation, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU 2016-01 became effective for Pinnacle Financial in the first quarter of 2018 and continues to have no material impact on its financial statements. See Note 10. Fair Value of Financial Instruments for disclosure of the fair value of financial instruments based on an exit price notion as required by ASU 2016-01.

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) developed as a joint project with the International Accounting Standards Board to remove inconsistencies in revenue requirements and provide a more robust framework for addressing revenue issues. The ASU's core principle is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued Accounting Standards Update 2015-14, which deferred the effective date by one year (i.e., interim and annual reporting periods beginning after December 15, 2017). Pinnacle Financial adopted the ASU during the first quarter of 2018, as required, using a modified retrospective approach. The majority of Pinnacle Financial's revenue stream is generated from interest income on loans and deposits, which are outside the scope of Topic 606. Pinnacle Financial’s sources of income that fall within the scope of Topic 606 include service charges on deposits, investment services, insurance sales commissions, trust fees, interchange fees and gains and losses on sales of other real estate, all of which are presented within noninterest income. Pinnacle Financial has evaluated the effect of Topic 606 on these fee-based income streams and concluded that adoption of the standard did not materially impact its financial statements. The following is a summary of the implementation considerations for the revenue streams that fall within the scope of Topic 606:

- Service charges on deposits, investment services, trust fees and interchange fees — Fees from these services are either transaction based, for which the performance obligations are satisfied when the individual transaction is processed, or set periodic service charges, for which the performance obligations are satisfied over the period the service is provided. Transaction-based fees are recognized at the time the transaction is processed, and periodic service charges are recognized over the service period. The adoption of Topic 606 had no impact on Pinnacle Financial's revenue recognition practice for these services.

- Insurance sales commissions — Insurance commissions are received from insurance companies in return for the placement of policies with customers. While additional services, such as claims assistance, may be provided over the term of the policy, the revenues are substantially earned at the time of policy placement. The only contingency in earning the revenue relates to the potential for subsequent cancellation of policies. Accordingly, revenue is recognized at the time of policy placement, net of an allowance for estimated policy cancellations. The adoption of Topic 606 had no impact on Pinnacle Financial's revenue recognition related to insurance sales commissions.

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Gains on sales of other real estate — ASU 2014-09 also creates Topic 610-20, under which a gain on sale should be recognized when a contract for sale exists and control of the asset has been transferred to the buyer. Topic 606 lists several criteria which must exist to conclude that a contract for sale exists, including a determination that the institution will collect substantially all of the consideration to which it is entitled. This presents a key difference between the prior and new guidance related to the recognition of the gain when the institution finances the sale of the property. Rather than basing recognition on the amount of the buyer's initial investment, which was the primary consideration under prior guidance, the analysis is now based on various factors including not only the loan to value ratio, but also the credit quality of the borrower, the structure of the loan, and any other factors that may affect collectability. While these differences may affect the decision to recognize or defer gains on sales of other real estate in circumstances where Pinnacle Bank has financed the sale, the effects would not be material to Pinnacle Financial's consolidated financial statements.

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Recently Issued Accounting Pronouncements

In February 2018, the FASB issued Accounting Standards Update 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this ASU addressed the income tax accounting treatment of the stranded tax effects within other comprehensive income due to the newly enacted federal corporate tax rate included in the Tax Cuts and Jobs Act issued December 22, 2017. These amendments allow an entity to make a reclassification from other comprehensive income to retained earnings for the difference between the historical corporate income tax rate and the newly enacted corporate income tax rate. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted with retrospective application. This standard will not have a material impact.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment to simplify how entities other than private companies, such as public business entities and not-for-profit entities, are required to test goodwill for impairment by eliminating the comparison of the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those periods. If this standard had been effective as of the date of the financial statements included in this report, there would have been no impact on Pinnacle Financial's consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases guidance requiring the recognition in the statement of financial position of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The guidance requires that a lessee should recognize lease assets and lease liabilities as compared to previous GAAP that did not require lease assets and lease liabilities to be recognized for operating leases. The guidance becomes effective for us on January 1, 2019. If this standard was effective as of the date of the financial statements included in this report, Pinnacle Financial would have recorded a right of use asset and liability in an amount similar to the net present value of its current future minimum lease obligations.

In June 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (CECL), which introduces the current expected credit losses methodology. Among other things, CECL requires the measurement of all expected credit losses for financial assets, including loans and held-to-maturity debt securities, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The new model will require institutions to calculate all probable and estimable losses that are expected to be incurred through the financial asset's entire life through a provision for credit losses, including loans obtained as a result of any acquisition not deemed to be purchased credit deteriorated (PCD). CECL also requires the allowance for credit losses for PCD loans to be determined in a manner similar to that of other financial assets measured at amortized cost; however, the initial allowance will be added to the purchase price rather than recorded as provision expense. The disclosure of credit quality indicators related to the amortized cost of financing receivables will be further disaggregated by year of origination (or vintage). Institutions are to apply the changes through a cumulative-effect adjustment to their retained earnings as of the beginning of the first reporting period in which the standard is effective. The amendments are effective for fiscal years beginning after December 15, 2019. Early application will be permitted for fiscal years beginning after December 15, 2018. Pinnacle Financial is currently assessing the impact of the new guidance on its consolidated financial statements. An increase in the overall allowance for loan losses is likely upon adoption in order to provide for expected credit losses over the life of the loan portfolio.

Other than those pronouncements discussed above and those which have been recently adopted, we do not believe there were any other recently issued accounting pronouncements that are expected to materially impact Pinnacle

Financial.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item 3 is included on pages 37 through 60 of Part I - Item 2 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Pinnacle Financial maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by it in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to Pinnacle Financial's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Pinnacle Financial carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that Pinnacle Financial's disclosure controls and procedures were effective.

Changes in Internal Controls

There were no changes in Pinnacle Financial's internal control over financial reporting during Pinnacle Financial's fiscal quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, Pinnacle Financial's internal control over financial reporting.

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PART II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS

Various legal proceedings to which Pinnacle Financial or a subsidiary of Pinnacle Financial is a party arise from time to time in the normal course of business. There are no material pending legal proceedings to which Pinnacle Financial or a subsidiary of Pinnacle Financial is a party or of which any of their property is the subject.

ITEM 1A. RISK FACTORS

Investing in Pinnacle Financial involves various risks which are particular to our company, our industry and our market area. We believe all significant risks to investors in Pinnacle Financial have been outlined in Part II, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017. However, other risks may prove to be important in the future, and new risks may emerge at any time. We cannot predict with certainty all potential developments which could materially affect our financial performance or condition. There has been no material change to our risk factors as previously disclosed in the above described Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table discloses shares of our common stock repurchased during the three months ended June 30, 2018.

Period	Total Number of Shares Repurchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
April 1, 2018 to April 30, 2018	1,512	$ 62.61	—	—
May 1, 2018 to May 31, 2018	1,998	66.47	—	—
June 1, 2018 to June 30, 2018	10,731	63.77	—	—
Total	14,241	$ 64.06	—	—

(1) During the quarter ended June 30, 2018, 49,939 shares of restricted stock previously awarded to certain of the participants in our equity incentive plans vested. We withheld 14,241 shares to satisfy tax withholding requirements associated with the vesting of these restricted shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS

3.1	Amended and Restated Charter of Pinnacle Financial Partners, Inc. as amended (Restated for SEC filing purposes only), incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on April 18, 2018.
10.1	Pinnacle Financial Partners, Inc. 2018 Omnibus Equity Incentive Plan, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 18, 2018.
10.2	Third Amendment to Loan Agreement dated as of March 27, 2018 by and between U.S. Bank National Association and Pinnacle Financial Partners, Inc., incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 1, 2018.
10.3	Fourth Amendment to Loan Agreement dated as of April 26, 2018 by and between U.S. Bank National Association and Pinnacle Financial Partners, Inc., incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 1, 2018.
10.4	Form of Directors Restricted Stock Agreement, incorporated herein by reference to Exhibit 10.40 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.
10.5	Form of Named Executive Officers Performance Unit Award Agreement, incorporated herein by reference to Exhibit 10.41 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.
10.6	Form of Associate Time-Vested Restricted Stock Agreement, incorporated herein by reference to Exhibit 10.42 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.
31.1*	Certification pursuant to Rule 13a-14(a)/15d-14(a)
31.2*	Certification pursuant to Rule 13a-14(a)/15d-14(a)
32.1**	Certification pursuant to 18 USC Section 1350 - Sarbanes-Oxley Act of 2002
32.2**	Certification pursuant to 18 USC Section 1350 - Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Schema Documents
101.CAL*	XBRL Calculation Linkbase Document
101.LAB*	XBRL Label Linkbase Document
101.PRE*	XBRL Presentation Linkbase Document
101.DEF*	XBRL Definition Linkbase Document

†	As directed by Item 601(b)(2) of Regulation S-K, certain schedules and exhibits to this exhibit are omitted from this filing. The Company agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon request.
#	Management contract or compensatory plan or arrangement.
*	Filed herewith.
**	Furnished herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PINNACLE FINANCIAL PARTNERS, INC.

August 3, 2018	/s/ M. Terry Turner M. Terry Turner President and Chief Executive Officer
August 3, 2018	/s/ Harold R. Carpenter Harold R. Carpenter Chief Financial Officer