PINNACLE FINANCIAL PARTNERS INC
Form 10-K
February 25, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014
OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission File Number: 000-31225

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

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

Registrant's telephone number, including area code: (615) 744-3700

Securities registered pursuant to Section 12 (b) of the Act:

Title of Each Class	Name of Exchange on which Registered
Common Stock, par value $1.00	Nasdaq Global Select Market

Securities registered to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer [X] Accelerated Filer [ ] Non-accelerated Filer [ ] (Do not check if a smaller reporting company) Smaller Reporting Company [ ]

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity as of the last business day of the registrant's most recently completed second fiscal quarter: $1,313,162,875 as of June 30, 2014.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 35,809,746 shares of common stock as of February 18, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders, scheduled to be held April 21, 2015, are incorporated by reference into Part III of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

Certain of the statements in this Annual Report on Form 10-K may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "expect," "anticipate," "goal," "objective," "intend," "plan," "believe," "should," "seek," "estimate" and similar expressions are intended to identify such forward-looking statements, but other statements not based on historical information may also be considered forward-looking. All forward-looking statements are subject to risks, uncertainties and other factors that may cause the actual results, performance or achievements of Pinnacle Financial Partners, Inc. (Pinnacle Financial) to differ materially from any results expressed or implied by such forward-looking statements. Such risks include, without limitation, (i) deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses; (ii) continuation of the historically low short-term interest rate environment; (iii) the inability of Pinnacle Financial or companies in which Pinnacle Financial has significant investments to grow their loan portfolios at recent growth rates; (iv) changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments; (v) effectiveness of Pinnacle Financial's asset management activities in improving, resolving or liquidating lower-quality assets; (vi) increased competition with other financial institutions; (vii) greater than anticipated adverse conditions in the national or local economies including the Nashville-Davidson-Murfreesboro-Franklin MSA and the Knoxville MSA, particularly in commercial and residential real estate markets; (viii) rapid fluctuations or unanticipated changes in interest rates on loans or deposits; (ix) the results of regulatory examinations; (x) the ability to retain large, uninsured deposits; (xi) the development of any new geographic market other than Nashville or Knoxville; (xii) a merger or acquisition; (xiii) risk of expansion into new geographic or product markets; (xiv) any matter that would cause Pinnacle Financial to conclude that there was impairment of any asset, including intangible assets; (xv) reduced ability to attract additional financial advisors (or failure of such advisors to cause their clients to switch to Pinnacle Financial) or otherwise to attract customers from other financial institutions; (xvi) further deterioration in the valuation of other real estate owned and increased expenses associated therewith; (xvii) inability to comply with regulatory capital requirements, including those resulting from changes to capital calculation methodologies and required capital maintenance levels; (xviii) risks associated with litigation, including the applicability of insurance coverage; (xix) approval of the declaration of any dividend by Pinnacle Financial's board of directors, (xx) the vulnerability of our network and online banking portals to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches, (xxi) the possibility of increased compliance costs as a result of increased regulatory oversight, including oversight of companies in which Pinnacle has significant investments, and the development of additional banking products for our corporate and consumer clients, and (xxii) changes in state and federal legislation, regulations or policies applicable to banks and other financial service providers, including regulatory or legislative developments arising out of current unsettled conditions in the economy, including implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. A more detailed description of these and other risks is contained in "Item 1A. Risk Factors" below. Many of such factors are beyond Pinnacle Financial's ability to control or predict, and readers are cautioned not to put undue reliance on such forward-looking statements. Pinnacle Financial disclaims any obligation to update or revise any forward-looking statements contained in this release, whether as a result of new information, future events or otherwise.

PART I

Unless this Form 10-K indicates otherwise or the context otherwise requires, the terms "we," "our," "us," "the firm," "Pinnacle Financial Partners," "Pinnacle" or "Pinnacle Financial" as used herein refer to Pinnacle Financial Partners, Inc., and its subsidiaries, including Pinnacle Bank, which we sometimes refer to as "our bank subsidiary" or "our bank" and its other subsidiaries. References herein to the fiscal years 2010, 2011, 2012, 2013 and 2014 mean our fiscal years ended December 31, 2010, 2011, 2012, 2013 and 2014, respectively.

ITEM 1. BUSINESS

OVERVIEW

Pinnacle Financial is the second-largest bank holding company headquartered in Tennessee, with $6.02 billion in assets as of December 31, 2014. Incorporated on February 28, 2000, the holding company is the parent company of Pinnacle Bank and owns 100% of the capital stock of Pinnacle Bank. The firm started operations on October 27, 2000, in Nashville, Tennessee, and has since grown to 34 offices, including 29 in eight Middle Tennessee counties. The firm also has five offices in Knoxville, Tennessee, the state's third-largest banking market. Prior to September 4, 2012, when it converted from a national bank to a state bank, Pinnacle Bank was known as Pinnacle National Bank.

The firm operates as a community bank primarily in the urban markets of Nashville and Knoxville, Tennessee. As an urban community bank, Pinnacle Financial provides the personalized service most often associated with small community banks, while seeking to offer the sophisticated products and services, such as investments and treasury management, more typically offered by large regional and national banks. This approach has enabled Pinnacle Financial to attract clients from the regional and national banks in the Nashville and Knoxville MSAs. As a result, Pinnacle has grown to the fourth largest market share in the Nashville MSA and to the sixth largest market share in the Knoxville MSA, based on 2014 FDIC Summary of Deposits data including the impact of any mergers and acquisitions.

PRODUCTS AND SERVICES

Lending Services

We offer a full range of lending products, including commercial, real estate and consumer loans to individuals and small-to medium-sized businesses and professional entities. We compete for these loans with competitors who are also well established in the Nashville and Knoxville MSAs.

Pinnacle Bank's loan approval policies provide for various levels of officer lending authority. When the total amount of loans to a single borrower exceeds an individual officer's lending authority, officers with higher lending authority determine whether to approve any new loan requests or renewals of existing loans. Loans to insiders require approval of the board, and, certain extensions of credit, including loans above certain amounts and certain adversely classified loans, require approval of a committee of the board.

In February 2015, Pinnacle Bank acquired a 30% membership interest in Bankers Healthcare Group, LLC (BHG), a company which makes term loans to healthcare professionals and practices, for $75 million in cash. Pinnacle Bank will have one of four seats on BHG's board of managers, will account for the investment using the equity method, and its interest in BHG's net income will be reflected in Pinnacle Financial's noninterest income.

Pinnacle Bank's lending activities are subject to a variety of lending limits imposed by federal and state law. Differing limits apply based on the type of loan or the nature of the borrower, including the borrower's relationship to Pinnacle Bank. In general, however, at December 31, 2014, we were able to loan any one borrower a maximum amount equal

to approximately $88.9 million plus an additional $59.2 million, or a total of approximately $148.1 million, for loans that meet certain additional collateral guidelines. These legal limits will increase or decrease as Pinnacle Bank's capital increases or decreases as a result of its earnings or losses, the injection of additional capital, payments of dividends, or for other reasons. Pinnacle Bank's internal loan limit of $30 million is less than the legal lending limit, and Pinnacle Bank currently has three relationships in excess of its internal loan limit. These relationships range from $34.0 million to $40.0 million and were each approved by the Executive Committee of the Board of Directors.
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The principal economic risk associated with each category of loans that Pinnacle Bank expects to make is the creditworthiness of the borrower. General economic factors affecting a commercial or consumer borrower's ability to repay include interest, inflation and unemployment rates, as well as other factors affecting a borrower's assets, clients, suppliers and employees. Many of Pinnacle Bank's commercial loans are made to small- to medium-sized businesses that are sometimes less able to withstand competitive, economic and financial pressures than larger borrowers. During periods of economic weakness these businesses may be more adversely affected than other enterprises and may cause increased levels of nonaccrual or other problem loans, loan charge-offs and higher provision for loan losses.

Pinnacle Bank's commercial clients borrow for a variety of purposes. The terms of these loans (which include equipment loans and working capital loans) will vary by purpose and by type of any underlying collateral. Commercial loans may be unsecured or secured by accounts receivable or by other business assets. Pinnacle Bank also makes a variety of commercial real estate loans, including both investment properties and business loans secured by real estate.

Pinnacle Bank also makes a variety of loans to individuals for personal, family, investment and household purposes, including secured and unsecured installment and term loans, residential first mortgage loans, home equity loans, home equity lines of credit and credit card loans.

Deposit Services

Pinnacle Bank seeks to establish a broad base of core deposits, including savings, checking, interest-bearing checking, money market and certificate of deposit accounts. To attract deposits, Pinnacle Bank has employed a marketing plan in its overall service areas primarily based on relationship banking and features a broad product line and competitive rates and services. The primary sources of deposits are individuals and businesses located in the Nashville and Knoxville MSAs. Pinnacle Bank traditionally has obtained these deposits primarily through personal solicitation by its officers and directors, although its use of media advertising has increased in recent years due to its advertising and banking sponsorship with the Tennessee Titans NFL football team.

Pinnacle Bank also offers its targeted commercial clients a comprehensive array of treasury management services as well as remote deposit services, which allow electronic deposits to be made from the client's place of business.

Investment, Trust and Insurance Services

Pinnacle Bank contracts with Raymond James Financial Services, Inc. (RJFS), a registered broker-dealer and investment adviser, to offer and sell various securities and other financial products to the public from Pinnacle Bank's locations through Pinnacle Bank employees that are also RJFS employees. RJFS is a subsidiary of Raymond James Financial, Inc.

Pinnacle Bank offers, through RJFS, non-FDIC insured investment products in order to assist Pinnacle Bank's clients in achieving their financial objectives consistent with their risk tolerances. All of the financial products are offered by RJFS from Pinnacle Bank's main office and its other offices. Additionally, we believe that the brokerage and investment advisory program offered by RJFS complements Pinnacle Bank's general banking business, and further supports its business philosophy and strategy of delivering to our clients those products and services that meet their financial needs. Pursuant to its contract with us, RJFS is primarily responsible for the compliance monitoring of dual employees of RJFS and Pinnacle Bank. Additionally, Pinnacle Bank has developed its own compliance-monitoring program in an effort to further ensure that Pinnacle Bank personnel deliver these products in a manner consistent with the various regulations governing such activities. Pinnacle Bank receives a percentage of commission credits and fees generated by the program. Pinnacle Bank remains responsible for various expenses associated with the program, including promotional expenses, furnishings and equipment expenses and general personnel costs including commissions paid to licensed brokers.

Pinnacle Bank also maintains a trust department which provides fiduciary and investment management services for individual and commercial clients. Account types include personal trust, endowments, foundations, individual retirement accounts, pensions and custody. Pinnacle Advisory Services, Inc., a registered investment advisor, provides investment advisory services to its clients. Additionally, Miller Loughry Beach Insurance Services, Inc., an insurance agency subsidiary of Pinnacle Bank, provides insurance products, particularly in the property and casualty area, to its clients.

Capital Markets

In December 2014, Pinnacle Financial announced that it was entering the capital markets business with the hiring of a new senior officer to lead Pinnacle Bank's PNFP Capital Markets subsidiary. PNFP Capital Markets employees are expected to partner with Pinnacle Bank's financial advisors to offer corporate clients merger & acquisition advisory services, private debt, equity and mezzanine, interest rate derivatives and other selected middle-market advisory services.

Other Banking Services

Given client demand for increased convenience in accessing banking and investment services, Pinnacle Bank also offers a broad array of convenience-centered products and services, including 24-hour telephone and internet banking, mobile banking, debit and credit cards, direct deposit, remote deposit and cash management services for small- to medium-sized businesses. Additionally, Pinnacle Bank is associated with a nationwide network of automated teller machines of other financial institutions that our clients are able to use throughout Tennessee and other regions. In many cases, Pinnacle Bank, in contrast to many of its regional competitors, reimburses its clients for any fees that may be charged to the client for utilizing the nationwide ATM network, providing greater convenience as compared to these competitors.

Competitive Conditions

The Nashville MSA banking market is very competitive, with 65 financial institutions with over $44.1 billion in deposits in the market as of June 30, 2014, up from approximately $40.8 billion at June 30, 2013 according to FDIC data. As of June 30, 2000, approximately 62.8% of this deposit base was controlled by three large, multi-state banks headquartered outside of Nashville, consisting of the following: Regions Financial (headquartered in Birmingham, Alabama), Bank of America (headquartered in Charlotte, North Carolina), and SunTrust (headquartered in Atlanta, Georgia). According to FDIC deposit information, the collective market share of deposits in the Nashville MSA of Regions Financial (including the acquired Union Planters National Bank and AmSouth Bank), Bank of America, and SunTrust (including the acquired National Bank of Commerce) declined from approximately 62.8% to 43.1% between June 30, 2000 and June 30, 2014. Pinnacle Bank, on the other hand, after fourteen years of operations, holds the No. 4 market share position in the Nashville MSA at June 30, 2014 with 9.4% of the market, immediately behind the top three out-of-state banks.

The Knoxville MSA banking market is also very competitive, with 51 financial institutions with over $14.7 billion in deposits in the market as of June 30, 2014 up from $14.5 billion at June 30, 2013. As of June 30, 2007, approximately 53.2% of this deposit base was controlled by three large, multi-state banks headquartered outside of Knoxville, consisting of the following: First Horizon (headquartered in Memphis, Tennessee), SunTrust, and Regions Financial. According to FDIC deposit information, the collective market share of deposits in the Knoxville MSA of First Horizon, SunTrust, and Regions Financial declined from 53.2% to 49.0% between June 30, 2007 and June 30, 2014. The decline in market share for the top three competitors since June 30, 2007 has occurred since Pinnacle Bank established a presence in the Knoxville MSA in 2007. At June 30, 2014, Pinnacle Bank had approximately 3.5% of the market share in the Knoxville MSA.

We believe that the most important criteria to our bank's targeted clients when selecting a bank is their desire to receive exceptional and personal customer service while being able to enjoy convenient access to a broad array of sophisticated financial products. Additionally, when presented with a choice, we believe that many of our bank's targeted clients would prefer to deal with a locally-owned institution headquartered in Tennessee, like Pinnacle Bank, as opposed to a large, multi-state bank, where many important decisions regarding a client's financial affairs are made elsewhere.

Employees

As of February 15, 2015, we employed 766.5 full-time equivalent associates. We believe these associates are Pinnacle's most important asset and consider our relationship with our associates to be excellent. This is supported by the fact that consulting firm, Great Place to Work, recognized us as one of the best workplaces in the United States on its 2014 Best Small & Medium Workplaces list published in FORTUNE magazine. The selection is based on an anonymously conducted survey of associates. Additionally, the American Banker also recognized Pinnacle Bank as the best bank to work for in 2013 and the second best bank to work for in 2014.

OTHER INFORMATION

Investment Securities

In addition to loans, Pinnacle Bank has investments primarily in United States agency securities, mortgage-backed securities, and state and municipal securities. No investment in any of those instruments exceeds any applicable limitation imposed by law or regulation. The executive committee of the board of directors reviews the investment portfolio on an ongoing basis in order to ensure that the investments conform to Pinnacle Bank's asset liability management policy as set by the board of directors.

Asset and Liability Management

Our Asset Liability Management Committee (ALCO), composed of senior managers of Pinnacle Bank, manages Pinnacle Bank's assets and liabilities and strives to provide a stable, optimized net interest income and margin, adequate liquidity and ultimately a suitable after-tax return on assets and return on equity. ALCO conducts these management functions within the framework of written policies that Pinnacle Bank's board of directors has adopted. ALCO works to maintain an acceptable position between rate sensitive assets and rate sensitive liabilities. The executive committee of the board of directors oversees the ALCO function on an ongoing basis.

Available Information

We file reports with the Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer, and the SEC maintains an Internet site at www.sec.gov that contains the reports, proxy and information statements, and other information we have filed electronically.

Our website address is www.pnfp.com. Please note that our website address is provided as an inactive textual reference only. We make available free of charge through our website, the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The information provided on our website is not part of this report, and is therefore not incorporated by reference unless such information is otherwise specifically referenced elsewhere in this report.

We have also posted our Corporate Governance Guidelines, Corporate Code of Conduct for directors, officers and employees, and the charters of our Audit Committee, Human Resources and Compensation Committee, and Nominating and Corporate Governance Committee of our board of directors on the Corporate Governance section of our website at www.pnfp.com. We will make any legally required disclosures regarding amendments to, or waivers of, provisions of our Corporate Code of Conduct, Corporate Governance Guidelines or current committee charters on our website. Our corporate governance materials are available free of charge upon request to our Corporate Secretary, Pinnacle Financial Partners, Inc., 150 Third Avenue South, Suite 900, Nashville, Tennessee 37201.

SUPERVISION AND REGULATION

Both Pinnacle Financial and Pinnacle Bank are subject to extensive state and federal banking laws and regulations that impose restrictions on and provide for general regulatory oversight of Pinnacle Financial's and Pinnacle Bank's operations. These laws and regulations are generally intended to protect depositors and borrowers, not stockholders.

Pinnacle Financial

Pinnacle Financial is a bank holding company under the federal Bank Holding Company Act of 1956. As a result, it is subject to the supervision, examination, and reporting requirements of the Bank Holding Company Act and the regulations of the Federal Reserve.

Acquisition of Banks. The Bank Holding Company Act requires every bank holding company to obtain the Federal Reserve's prior approval before:

- Acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank's voting shares;
- Acquiring all or substantially all of the assets of any bank; or
- Merging or consolidating with any other bank holding company.

Additionally, the Bank Holding Company Act provides that the Federal Reserve may not approve any of these transactions if it would substantially lessen competition or otherwise function as a restraint of trade, or result in or tend to create a monopoly, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the communities to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned; the effectiveness of the company in combating money laundering; the convenience and needs of the communities to be served; and the extent to which the proposal would result in greater or more concentrated risk to the United States banking or financial system.

Under the Bank Holding Company Act, as amended by the Dodd-Frank Act, if well-capitalized and well-managed, a bank holding company located in Tennessee may purchase a bank located outside of Tennessee. Conversely, a well-capitalized and well-managed bank holding company located outside of Tennessee may purchase a bank located inside Tennessee. In each case, however, state law restrictions may be placed on the acquisition of a bank that has only been in existence for a limited amount of time or will result in specified concentrations of deposits. For example, Tennessee law currently prohibits a bank holding company from acquiring control of a Tennessee-based financial institution until the target financial institution has been in operation for three years.

Change in Bank Control. Subject to various exceptions, the Bank Holding Company Act and the Federal Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person or company acquiring "control" of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control is refutably presumed to exist if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either:

- The bank holding company has registered securities under Section 12 of the Securities Exchange Act of 1934; or
- No other person owns a greater percentage of that class of voting securities immediately after the transaction.

Pinnacle Financial's common stock is registered under Section 12 of the Securities Exchange Act of 1934. The regulations provide a procedure for challenge of the rebuttable control presumption.

Permitted Activities. The Gramm-Leach-Bliley Act of 1999 amended the Bank Holding Company Act and expanded the activities in which bank holding companies and affiliates of banks are permitted to engage. The Gramm-Leach-Bliley Act eliminated many federal and state law barriers to affiliations among banks and securities firms, insurance companies, and other financial service providers. Generally, if Pinnacle Financial qualifies and elects to become a financial holding company, which is described below, Pinnacle Financial may engage in activities that are:

- Financial in nature;

- Incidental to a financial activity (as determined by the Federal Reserve in consultation with the Secretary of the U.S. Treasury); or

- Complementary to a financial activity and do not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally (as determined by the Federal Reserve).

The Gramm-Leach-Bliley Act expressly lists the following activities as financial in nature:

- Lending, trust and other banking activities;
- Insuring, guaranteeing, or indemnifying against loss or harm, or providing and issuing annuities, and acting as principal, agent, or broker for these purposes, in any state;
- Providing financial, investment, or advisory services;
- Issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly;
- Underwriting, dealing in or making a market in securities;
- Activities that the Federal Reserve has determined to be so closely related to banking or managing or controlling banks as to be a proper incident to banking or managing or controlling banks;
- Activities permitted outside of the United States that the Federal Reserve has determined to be usual in connection with banking or other financial operations abroad;
- Merchant banking through securities or insurance affiliates; and
- Insurance company portfolio investments.

The Gramm-Leach-Bliley Act also authorizes the Federal Reserve, in consultation with the Secretary of the U.S. Treasury, to determine activities in addition to those listed above that are financial in nature or incidental to such financial activity. In determining whether a particular activity is financial in nature or incidental or complementary to a financial activity, the Federal Reserve must consider (1) the purpose of the Bank Holding Company Act and the Gramm-Leach-Bliley Act, (2) changes or reasonably expected changes in the marketplace in which financial holding companies compete and in the technology for delivering financial services, and (3) whether the activity is necessary or appropriate to allow financial holding companies to effectively compete with other financial service providers and to efficiently deliver information and services. Pinnacle Financial has not elected to become a financial holding company as of the date of this report.

Under the Bank Holding Company Act, a bank holding company, which has not qualified or elected to become a financial holding company, is generally prohibited from engaging in or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in nonbanking activities unless, prior to the enactment of the Gramm-Leach-Bliley Act, the Federal Reserve found those activities to be so closely related to banking as to be a proper incident to the business of banking. Activities that the Federal Reserve has found to be so closely related to banking as to be a proper incident to the business of banking include:

- Factoring accounts receivable;
- Acquiring or servicing loans;
- Leasing personal property;
- Conducting discount securities brokerage activities;
- Performing selected data processing services;

- Acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and

- Underwriting certain insurance risks of the holding company and its subsidiaries.

Despite prior approval, the Federal Reserve may order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness, or stability of any of its bank subsidiaries.

Support of Subsidiary Institutions. Under the Dodd-Frank Act, and previously under Federal Reserve policy, Pinnacle Financial is required to act as a source of financial strength for its bank subsidiary, Pinnacle Bank, and to commit resources to support Pinnacle Bank. This support can be required at times when it would not be in the best interest of Pinnacle Financial's stockholders or creditors to provide it. In the event of Pinnacle Financial's bankruptcy, any commitment by it to a federal bank regulatory agency to maintain the capital of Pinnacle Bank would be assumed by the bankruptcy trustee and entitled to a priority of payment.

Pinnacle Bank

Pinnacle Financial owns one bank - Pinnacle Bank. Pinnacle Bank is a state bank chartered under the laws of the State of Tennessee that is not a member of the Federal Reserve. As a result, it is subject to the supervision, examination and reporting requirements and the regulations of the Federal Deposit Insurance Corporation (FDIC) and Tennessee Department of Financial Institutions (TDFI). The TDFI has the authority to approve or disapprove mergers, the establishment of branches and similar corporate actions. The TDFI regularly examines state banks like Pinnacle Bank and in connection with its examinations may identify matters necessary to improve a bank's operation in accordance with principles of safety and soundness. Any matters identified in such examinations are required to be appropriately addressed by the bank. Pinnacle Bank is also subject to numerous state and federal statutes and regulations that will affect its business, activities and operations.

Branching. While the TDFI has authority to approve branch applications, state banks are required by the State of Tennessee to adhere to branching laws applicable to state chartered banks in the states in which they are located. With prior regulatory approval, Tennessee law permits banks based in the state to either establish new or acquire existing branch offices throughout Tennessee. As a result of the Dodd-Frank Act, Pinnacle Bank and any other national or state-chartered bank generally may branch across state lines to the same extent as banks chartered in the state of the branch.

FDIC Insurance. Deposits in Pinnacle Bank are insured by the FDIC subject to applicable limitations. To offset the cost of this issuance, the FDIC has adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities. Under the Dodd-Frank Act, the FDIC has adopted regulations that base deposit insurance assessments on total assets less capital rather than deposit liabilities and include off-balance sheet liabilities of institutions and their affiliates in risk-based assessments.

The Dodd-Frank Act increased the basic limit on federal deposit insurance coverage to $250,000 per depositor. The Dodd-Frank Act also repealed the prohibition on paying interest on demand transaction accounts.

The FDIC may terminate its insurance of an institution's deposits if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Capital Adequacy

The Federal Reserve has established a risk-based and a leverage measure of capital adequacy for bank holding companies. Pinnacle Bank is also subject to risk-based and leverage capital requirements adopted by the FDIC, which

are substantially similar to those adopted by the Federal Reserve for bank holding companies. The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance-sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance-sheet items, such as letters of credit and unfunded loan commitments, are assigned to broad risk categories, each with appropriate risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items. Tennessee state banks are required to have the capital structure that the TDFI deems adequate, and the Commissioner of the TDFI may require a state bank to increase its capital structure to the point deemed adequate by the Commissioner before granting approval of a branch application or charter amendment.

Under Federal Reserve guidelines for bank holding companies applicable prior to January 1, 2015, the minimum ratio of total capital to risk-weighted assets was 8%. Total capital consisted of two components, Tier 1 capital and Tier 2 capital. Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings, minority interests in the equity accounts of consolidated subsidiaries, noncumulative perpetual preferred stock and related surplus, and a limited amount of cumulative perpetual preferred stock and related surplus, less goodwill and other specified intangible assets. The trust preferred securities previously issued by Pinnacle Financial qualified as Tier 1 capital, and as described below will continue to qualify as Tier 1 capital under the Dodd-Frank Act and Basel III. Under Federal Reserve guidelines applicable prior to January 1, 2015, Tier 1 capital must equal at least 4% of risk-weighted assets. Tier 2 capital generally consists of subordinated debt, other preferred stock, and a limited amount of loan loss reserves. The total amount of Tier 2 capital is limited to 100% of Tier 1 capital. For a holding company to be considered "well-capitalized," it was required to maintain a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 6% and not be subject to a written agreement, order or directive to maintain a specific capital level.

In addition, the Federal Reserve established minimum leverage ratio guidelines for bank holding companies that were applicable prior to January 1, 2015. These guidelines provided that a minimum ratio of Tier 1 capital to average assets, less goodwill and other specified intangible assets, of at least 4% should be maintained for most bank holding companies. The guidelines also provided that bank holding companies experiencing high internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels. Furthermore, the Federal Reserve indicated that it will consider a bank holding company's Tier 1 capital leverage ratio, after deducting all intangibles, and other indicators of capital strength in evaluating proposals for expansion or new activities.

The Dodd-Frank Act contained a number of provisions dealing with capital adequacy of insured depository institutions and their holding companies, and for the most part these provisions have resulted in insured depository institutions and their holding companies being subject to more stringent capital requirements. Under the so-called Collins Amendment to the Dodd-Frank Act, federal regulators have established minimum leverage and risk-based capital requirements for, among other entities, banks and bank holding companies on a consolidated basis. These minimum requirements require that a bank holding company maintain a Tier 1 leverage ratio of not less than 4% and a total risk-based capital ratio of not less than 8%. The Collins Amendment also excludes trust preferred securities issued after May 19, 2010 from being included in Tier 1 capital unless the issuing company is a bank holding company with less than $500 million in total assets. Trust preferred securities issued prior to that date will continue to count as Tier 1 capital for bank holding companies with less than $15 billion in total assets, and such securities will be phased out of Tier 1 capital treatment for bank holding companies with over $15 billion in total assets as of May 9, 2010 over a three-year period beginning in 2013. Pinnacle Financial's trust preferred securities will continue to qualify as Tier 1 capital.

In July 2013, the Federal Reserve Board and the FDIC approved final rules that substantially amend the regulatory capital rules applicable to Pinnacle Bank and Pinnacle Financial, effective January 1, 2015. The final rules implement the regulatory capital reforms of the Basel Committee on Banking Supervision reflected in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" (Basel III) and changes required by the Dodd-Frank Act.

Under these rules, the leverage and risk-based capital ratios of bank holding companies may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The final rules implementing the Basel III regulatory capital reforms became effective as to Pinnacle Financial and Pinnacle Bank on January 1, 2015, and include new minimum risk-based capital and leverage ratios. Moreover, these rules refine the definition of what constitutes "capital" for purposes of calculating those ratios, including the definitions of Tier 1 capital and Tier 2 capital. The new minimum capital level requirements applicable to bank holding companies and banks subject to the

rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6% (increased from 4%); (iii) a total risk-based capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The rules also establish a "capital conservation buffer" of 2.5% (to be phased in over three years) above the new regulatory minimum risk-based capital ratios, and result in the following minimum ratios once the capital conservation buffer is fully phased in: (i) a common equity Tier 1 risk-based capital ratio of 7%, (ii) a Tier 1 risk-based capital ratio of 8.5%, and (iii) a total risk-based capital ratio of 10.5%. The capital conservation buffer requirement is to be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Under these new rules, Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings, limited amounts of minority interest in the form of additional Tier 1 capital instruments, and non-cumulative preferred stock and related surplus, subject to certain eligibility standards, less goodwill and other specified intangible assets and other regulatory deductions. Cumulative preferred stock and trust preferred securities issued after May 19, 2010, will no longer qualify as Tier 1 capital, but such securities issued prior to May 19, 2010, including in the case of bank holding companies with less than $15.0 billion in total assets on December 31, 2009, trust preferred securities issued prior to that date, will continue to count as Tier 1 capital subject to certain limitations. The definition of Tier 2 capital is generally unchanged for most banking organizations, subject to certain new eligibility criteria.

Common equity Tier 1 capital will generally consist of common stock (plus related surplus) and retained earnings plus limited amounts of minority interest in the form of common stock, less goodwill and other specified intangible assets and other regulatory deductions, including a portion of Pinnacle Bank's recorded investment in BHG (which as a minority interest in an unconsolidated financial institution is subject to specified deductions).

The final rules allow banks and their holding companies with less than $250 billion in assets a one-time opportunity to opt-out of a requirement to include unrealized gains and losses in accumulated other comprehensive income in their capital calculation. Pinnacle Financial expects that it will opt-out of this requirement.

The Federal Reserve has adopted regulations applicable to bank holding companies with assets over $10 billion that require such holding companies and banks to conduct annual stress tests and report the results to the applicable regulators and publicly disclose a summary of certain capital information and results including pro forma changes in regulatory capital ratios. For such companies, the board of directors and senior management is required to consider the results of the stress test in the normal course of business, including but not limited to capital planning and an assessment of capital adequacy in accordance with management's policies.

Failure to meet statutorily mandated capital requirements or more restrictive ratios separately established for a financial institution by its regulators could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting or renewing brokered deposits, limitations on the rates of interest that the institution may pay on its deposits and other restrictions on its business.

Additionally, the Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories (well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) into one of which all institutions are placed. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator within a specified period for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category.

Under FDIC regulations effective January 1, 2015, a state regulated bank which is not a member of the Federal Reserve (a state nonmember bank) is "well capitalized" if it has a leverage capital ratio of 5% or better, a Tier 1 risk-based capital ratio of 8% or better (up from 6.0% under previous regulations), a common equity Tier 1 capital ratio of 6.5%, or better, a total risk based capital ratio of 10% or better, and is not subject to a regulatory agreement, order or directive to maintain a specific level for any capital measure. A state nonmember bank is considered "adequately capitalized" if it has a leverage ratio of at least 4%, a common equity Tier 1 capital ratio of 4.5%, or better, a Tier 1 risk-based capital ratio of at least 6.0%, a total risk-based capital ratio of at least 8.0% and does not

meet the definition of a well-capitalized bank. Lower levels of capital result in a bank being considered undercapitalized, significantly undercapitalized and critically undercapitalized.

State nonmember banks are required to be "well capitalized" in order to take advantage of expedited procedures on certain applications, such as branches and mergers, and to accept and renew brokered deposits without further regulatory approval.

Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized (a ratio of tangible equity to total assets equal to or less than 2.0%). The federal banking agencies have specified by regulation the relevant capital level for each category.

An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. In addition, a bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to various limitations. The controlling holding company's obligation to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution into a lower capital category based on supervisory factors other than capital. As of December 31, 2014, Pinnacle Bank is considered "well-capitalized".

At December 31, 2014, Pinnacle Bank's common equity Tier 1 capital ratio (calculated under the Basel III regulations) was 10.8%, its Tier 1 risk-based capital ratio was 11.4%, its total risk-based capital ratio was 12.6% and its leverage ratio was 10.6%, compared to 11.3%, 11.3%, 12.6% and 10.5% at December 31, 2013, respectively. At December 31, 2014, Pinnacle Financial's common equity tier 1 capital ratio was 10.1%, its tier 1 risk-based capital ratio was 12.1%, its total risk-based capital ratio was 13.4% and its leverage ratio was 11.3%, compared to 10.1% 11.8%, 13.0% and 10.9% at December 31, 2013, respectively. All ratios above are in excess of regulatory requirements. More information concerning Pinnacle Financial's, and Pinnacle Bank's, regulatory ratios at December 31, 2014 is included in Note 21 to the "Notes to Consolidated Financial Statements" included elsewhere in this Annual Report on Form 10-K.

Payment of Dividends

Pinnacle Financial is a legal entity separate and distinct from Pinnacle Bank. The principal source of Pinnacle Financial's cash flow, including cash flow to pay interest to its holders of subordinated debentures, and any dividends payable to common stockholders, are dividends that Pinnacle Bank pays to Pinnacle Financial as its sole stockholder. Under Tennessee law, Pinnacle Financial is not permitted to pay dividends if, after giving effect to such payment, it would not be able to pay its debts as they become due in the usual course of business or its total assets would be less than the sum of its total liabilities plus any amounts needed to satisfy any preferential rights if it were dissolving. In addition, in deciding whether or not to declare a dividend of any particular size, Pinnacle Financial's board of directors must consider its and Pinnacle Bank's current and prospective capital, liquidity, and other needs.

In addition to state law limitations on Pinnacle Financial's ability to pay dividends, commencing January 1, 2016, the Federal Reserve's capital rules impose limitations on Pinnacle Financial's ability to pay dividends if its capital conservation buffer (which is generally the amount by which its capital ratios exceed the minimum requirement for such ratio) is less than 2.5%. The limitations are phased in over three years commencing January 1, 2016. In addition to limiting dividends these restrictions also limit share repurchases and the paying of discretionary bonuses if capital levels fall below minimums plus the buffer amounts, and also limit the percentage of eligible retained income that can be utilized for those purposes.

Statutory and regulatory limitations also apply to Pinnacle Bank's payment of dividends to Pinnacle Financial. Pinnacle Bank is required by Tennessee law to obtain the prior approval of the Commissioner of the TDFI for

payments of dividends if the total of all dividends declared by its board of directors in any calendar year will exceed (1) the total of Pinnacle Bank's net income for that year, plus (2) Pinnacle Bank's retained net income for the preceding two years. As of December 31, 2014, Pinnacle Bank could pay dividends to us of up to $116.5 million. Generally, federal regulatory policy encourages holding company debt to be serviced by subsidiary bank dividends or additional equity rather than debt issuances. Pinnacle Financial currently has available cash balances which amounted to approximately $36.5 million at December 31, 2014.

The payment of dividends by Pinnacle Bank and Pinnacle Financial may also be affected by other factors, such as the requirement to maintain adequate capital above statutorily mandated guidelines, or more restrictive requirements imposed on Pinnacle Bank or Pinnacle Financial by their regulators. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured depository institutions should generally only pay dividends out of current operating earnings. See "Capital Adequacy" above.

During the fourth quarter of 2013, Pinnacle Financial Partners initiated a quarterly common stock dividend in the amount of $0.08 per share. During the year ended December 31, 2014, Pinnacle Financial Partners paid $14.2 million in dividends to common shareholders. On January 20, 2015, Pinnacle Financial Partner's Board of Directors declared a $0.12 per share dividend to be paid on February 27, 2015 to shareholders of record as of the close of business on February 6, 2015, an increase of $0.04 or 50% over the amount of the quarterly dividends paid in the fourth quarter of 2014. The amount and timing of any future dividend payments to common shareholders will be subject to the discretion of Pinnacle Financial Partners Board of Directors.

Restrictions on Transactions with Affiliates

Both Pinnacle Financial and Pinnacle Bank are subject to the provisions of Section 23A of the Federal Reserve Act. Section 23A places limits on the amount of:

- A bank's loans or extensions of credit, including purchases of assets subject to an agreement to repurchase, to affiliates;

- A bank's investment in affiliates;

- Assets a bank may purchase from affiliates, except for real and personal property exempted by the Federal Reserve;

- The amount of loans or extensions of credit to third parties collateralized by the securities or obligations of affiliates;

- Transactions involving the borrowing or lending of securities and any derivative transaction that results in credit exposure to an affiliate; and

- A bank's guarantee, acceptance or letter of credit issued on behalf of an affiliate.

The total amount of the above transactions is limited in amount, as to any one affiliate, to 10% of a bank's capital and surplus and, as to all affiliates combined, to 20% of a bank's capital and surplus. In addition to the limitation on the amount of these transactions, each of the above transactions must also meet specified collateral requirements. Pinnacle Bank must also comply with other provisions designed to avoid the taking of low-quality assets.

Pinnacle Financial and Pinnacle Bank are also subject to the provisions of Section 23B of the Federal Reserve Act which, among other things, prohibits an institution from engaging in the above transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Pinnacle Bank is also subject to restrictions on extensions of credit to its executive officers, directors, principal stockholders and their related interests. These extensions of credit (1) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and (2) must not involve more than the normal risk of repayment or present other unfavorable features.

Community Reinvestment

The Community Reinvestment Act (CRA) requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve and the FDIC shall evaluate the record of each financial institution in meeting the credit needs of its local community, including low- and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on Pinnacle Bank. Additionally, banks are required to publicly disclose the terms

of various Community Reinvestment Act-related agreements. Pinnacle Bank received an "outstanding" CRA rating from its primary federal regulator on its most recent regulatory examination.

Privacy

Under the Gramm-Leach-Bliley Act, financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing personal financial information with nonaffiliated third parties except for third parties that market the institutions' own products and services. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing through electronic mail to consumers. Pinnacle Bank has established a privacy policy to ensure compliance with federal requirements.

Other Consumer Laws and Regulations

Interest and other charges collected or contracted for by Pinnacle Bank are subject to state usury laws and federal laws concerning interest rates. Pinnacle Bank's loan operations are also subject to federal laws applicable to credit transactions, such as the:

- Federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Bank Secrecy Act, governing how banks and other firms report certain currency transactions and maintain appropriate safeguards against "money laundering" activities;
- Soldiers' and Sailors' Civil Relief Act of 1940, governing the repayment terms of, and property rights underlying, secured obligations of persons in active military service; and
- Rules and regulations of the various federal agencies charged with the responsibility of implementing the federal laws.

Pursuant to the Dodd-Frank Act, Congress has established the Consumer Financial Protection Bureau ("CFPB") which is responsible for implementing federal consumer protection laws. Banks under $10 billion in assets will not be separately examined by the CFPB for compliance with these new laws and regulations, but will be examined for compliance by their primary federal bank regulator.

Pinnacle Bank's deposit operations are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
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Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities (including with respect to the permissibility of overdraft charges) arising from the use of automated teller machines and other electronic banking services.

Anti-Terrorism Legislation

On October 26, 2001, the President of the United States signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with clients and prospects including foreign financial institutions and foreign customers.

In addition, the USA PATRIOT Act authorizes the Secretary of the U.S. Treasury to adopt rules increasing the cooperation and information sharing between financial institutions, regulators, and law enforcement authorities regarding individuals, entities and organizations engaged in, or reasonably suspected based on credible evidence of engaging in, terrorist acts or money laundering activities. Any financial institution complying with these rules will not be deemed to have violated the privacy provisions of the Gramm-Leach-Bliley Act, as discussed above. Pinnacle Bank currently has policies and procedures in place designed to comply with the USA PATRIOT Act.

Recent and Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of the nation's financial institutions. In 2010, the U.S. Congress passed the Dodd-Frank Act, which includes significant consumer protection provisions related to, among other things, residential mortgage loans that have increased, and are likely to further increase, our regulatory compliance costs. The ultimate impact of the Dodd-Frank Act on our businesses and results of operations will depend on continued regulatory interpretation and rulemaking, as well as the success of any of our actions to mitigate the negative earnings impact of certain provisions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute. With the enactments of the Dodd-Frank Act and the significant amount of regulations that have been issued over the last four years and that are to come from the passage of that legislation, the nature and extent of the future legislative and regulatory changes affecting financial institutions and the resulting impact on those institutions remains unpredictable at this time.

Effect of Governmental Monetary Policies

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through the Federal Reserve's statutory power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The Federal Reserve, through its monetary and fiscal policies, affects the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

ITEM 1A. RISK FACTORS

Investing in our common stock involves various risks which are particular to our company, our industry and our market area. If any of the following risks were to occur, we may not be able to conduct our business as currently planned and our financial condition or operating results could be materially and negatively impacted. These matters could cause the trading price of our common stock to decline in future periods.

Negative developments in the U.S. and local economy and in local real estate markets have adversely impacted our results and may continue to adversely impact our results in the future.

Economic conditions in the markets in which we operate deteriorated significantly between early 2008 and the middle of 2010. These challenges resulted primarily from provisions for loan losses and other real estate expense related to declining collateral values in our real estate loan portfolio and increased costs associated with our portfolio of other real estate owned. Although economic conditions appear to have stabilized in our markets in the more recent periods and we have refocused our efforts on growing our earning assets, we believe that we will continue to experience a slower growth economic environment in 2015. Accordingly, we expect that our results of operations could continue to be negatively impacted by economic conditions, including reduced loan demand, in 2015. There can be no assurance that the economic conditions that have adversely affected the financial services industry, and the capital, credit and real estate markets, generally, or us in particular, will improve materially, or at all, in the near future, or thereafter, in which case we could continue to experience reduced earnings or again experience significant losses and write-downs of assets, and could face capital and liquidity constraints or other business challenges.

Fluctuations in interest rates could reduce our profitability.

The absolute level of interest rates as well as changes in interest rates may affect our level of interest income, the primary component of our gross revenue, as well as the level of our interest expense. Interest rate fluctuations are caused by many factors which, for the most part, are not under our control. For example, national monetary policy plays a significant role in the determination of interest rates. Additionally, competitor pricing and the resulting negotiations that occur with our customers also impact the rates we collect on loans and the rates we pay on deposits.

As interest rates change, we expect that we will periodically experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities (usually deposits and borrowings) will be more sensitive to changes in market interest rates than our interest-earning assets (usually loans and investment securities), or vice versa. In either event, if market interest rates should move contrary to our position, this "gap" may work against us, and our earnings may be negatively affected. During 2014, and in anticipation of increases in short term interest rates in the second half of 2015 that we anticipate will occur, we have reduced the amount of variable rate loans with interest rate floors by approximately $300 million. We believe that the reduction in the amount of variable rate loans with interest rate floors should better position our balance sheet for a rising rate environment. In the event that short-term interest rates don't rise in the second half of 2015, our efforts to transition our balance sheet to a more asset sensitive position may negatively impact our results of operations as we may earn less interest on these loans than we would have had we maintained these loan floors.

Changes in the level of interest rates also may negatively affect our ability to originate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings. A decline in the market value of our assets may limit our ability to borrow additional funds. As a result, we could be required to sell some of our loans and investments under adverse market conditions, upon terms that are not favorable to us, in order to maintain our liquidity. If those sales are made at prices lower than the amortized costs of the investments, we will incur losses. Because of the number of loans that we have made with interest rate floors above current rates, in a rising rate environment our liabilities may reprice faster than our loans, which would negatively impact our results of operations.

We have entered into certain hedging transactions including interest rate swaps, which are designed to lessen elements of our interest rate exposure. In the even that interest rates do not change in the manner anticipated, such transactions may not be effective.

Our ability to declare and pay dividends is limited.

While our board of directors has approved the payment of a quarterly cash dividend on our common stock since the fourth quarter of 2013, there can be no assurance of whether or when we may pay dividends on our common stock in the future. Future dividends, if any, will be declared and paid at the discretion of our board of directors and will depend on a number of factors. Our principal source of funds used to pay cash dividends on our common stock will be dividends that we receive from Pinnacle Bank. Although Pinnacle Bank's asset quality, earnings performance, liquidity and capital requirements will be taken into account before we declare or pay any future dividends on our common stock, our board of directors will also consider our liquidity and capital requirements and our board of directors could determine to declare and pay dividends without relying on dividend payments from Pinnacle Bank.

Federal and state banking laws and regulations and state corporate laws restrict the amount of dividends we may declare and pay. For example, Federal Reserve Board regulations implementing the capital rules required under Basel III do not permit dividends unless capital levels exceed certain higher levels applying capital conservation buffers that begin to apply on January 1, 2016 and are thereafter phased in over three years.

In addition, the terms of the indentures pursuant to which our subordinated debentures have been issued prohibit us from paying dividends on our common stock at times when we are deferring the payment of interest on our subordinated debentures. Moreover, the terms of our and our bank subsidiary's loan agreements prohibit us from paying dividends on our common stock when there is an event of default or unmatured event of default under the loan agreements or when the payment of the dividend would result in an event of default or unmatured event of default under the loan agreements.

We have a concentration of credit exposure to borrowers in certain industries, and we also target small to medium-sized businesses.

At December 31, 2014, we had meaningful credit exposures to borrowers in certain businesses, including commercial and residential building lessors, new home builders, and land subdividers. These industries experienced adversity during 2008 through 2010 as a result of sluggish economic conditions, and, as a result, an increased level of borrowers in these industries were unable to perform under their loan agreements with us, or suffered loan downgrades which negatively impacted our results of operations. If the economic environment in our markets weakens in 2015 or beyond, these industry concentrations could result in increased deterioration in credit quality, past dues, loan charge offs and collateral value declines, which could cause our earnings to be negatively impacted. Furthermore, any of our large credit exposures that deteriorate unexpectedly could cause us to have to make significant additional loan loss provisions, negatively impacting our earnings.

A substantial focus of our marketing and business strategy is to serve small to medium-sized businesses in the Nashville and Knoxville MSAs. As a result, a relatively high percentage of our loan portfolio consists of commercial loans primarily to small to medium-sized businesses. At December 31, 2014, our commercial and industrial loans accounted for almost 38.9% of our total loans, up from 31.5% at December 31, 2010. Additionally, approximately, 16.7% of our loans at December 31, 2014 are owner-occupied commercial real estate loans, which are loans to businesses secured by the businesses' real estate. We expect to seek to expand the amount and percentage of such loans in our portfolio in 2015. During periods of lower economic growth like those we have experienced in recent years, small to medium-sized businesses may be impacted more severely and more quickly than larger businesses. Consequently, the ability of such businesses to repay their loans may deteriorate, and in some cases this deterioration may occur quickly, which would adversely impact our results of operations and financial condition.

We are geographically concentrated in the Nashville, Tennessee and Knoxville, Tennessee MSAs, and changes in local economic conditions impact our profitability.

We currently operate primarily in the Nashville, Tennessee and Knoxville, Tennessee MSAs, and most of our borrowers, depositors and other customers live or have operations in these areas. Accordingly, our success significantly depends upon the growth in population, income levels, deposits and housing starts in these markets, along with the continued attraction of business ventures to the areas, and our profitability is impacted by the changes in general economic conditions in these markets. We cannot assure you that economic conditions, including loan demand, in our markets will improve during 2015 or thereafter, and in that case, we may not be able to grow our loan portfolio in line with our expectations, the ability of our customers to repay their loans to us may be negatively impacted and our financial condition and results of operations could be negatively impacted.

Compared to regional or national financial institutions, we are less able to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Moreover, we cannot give any assurance that we will benefit from any market growth or return of more favorable economic conditions in our primary market areas if they do occur.

If our allowance for loan losses is not sufficient to cover losses inherent in our portfolio, our earnings will decrease.

If loan customers with significant loan balances fail to repay their loans, our earnings and capital levels will suffer. We make various assumptions and judgments about the probable losses in our loan portfolio, including the creditworthiness of our borrowers and the value of any collateral securing the loans. We maintain an allowance for loan losses to cover our estimate of the probable losses in our loan portfolio. In determining the size of this allowance, we utilize estimates based on analyses of volume and types of loans, internal loan classifications, trends in classifications, volume and trends in delinquencies, nonaccruals and charge-offs, loss experience of various loan categories, national and local economic conditions, industry and peer bank loan quality indications, and other pertinent factors and information. If our assumptions are inaccurate, our current allowance may not be sufficient to cover potential loan losses, and additional provisions may be necessary which would decrease our earnings.

In addition, federal and state regulators periodically review our loan portfolio and may require us to increase our allowance for loan losses or recognize loan charge-offs. Their conclusions about the quality of a particular borrower or our entire loan portfolio may be different than ours. Any increase in our allowance for loan losses or loan charge offs as required by these regulatory agencies could have a negative effect on our operating results. Moreover, additions to the allowance may be necessary based on changes in economic and real estate market conditions, new information regarding existing loans, identification of additional problem loans, accounting rule changes and other factors, both within and outside of our management's control. These additions may require increased provision expense which would negatively impact our results of operations.

Our ability to grow our loan portfolio may be limited by, among other things, economic conditions, competition within our market areas, the timing of loan repayments and seasonality.

Our ability to continue to improve our operating results is dependent upon, among other things, aggressively growing our loan portfolio. While we believe that our strategy to grow our loan portfolio is sound and our growth targets are achievable over an extended period of time, competition within our market areas is significant, particularly for borrowers whose businesses have been less negatively impacted by the challenging economic conditions of the last few years. We compete with both large regional and national financial institutions, who are sometimes able to offer more attractive interest rates and other financial terms than we choose to offer, and smaller community-based financial institutions who seek to offer a similar level of service to that which we offer. This competition can make loan growth challenging, particularly if we are unwilling to price loans at levels that would cause unacceptable levels of compression of our net interest margin or if we are unwilling to structure a loan in a manner that we believe results in a level of risk to our Company that we are not willing to accept. Moreover, loan growth throughout the year can

fluctuate due in part to seasonality of the businesses of our borrowers and potential borrowers and the timing on loan repayments, particularly those of our borrowers with significant relationships with us, resulting from, among other things, excess levels of liquidity.

Our investment in BHG may not produce the contribution to our results of operations that we expect.

On February 4, 2015 we acquired a 30% interest in BHG for $75 million in cash. Although we have made other investments in businesses that we do not control, this is the largest investment of this type that we have made. While we have a significant stake in BHG, are entitled to designate one member of BHG's four person board of managers and in some instances have protective rights to block BHG from engaging in certain activities, we do not control BHG and the other managers and members of BHG make most decisions regarding BHG's operations without our consent or approval, including a decision to sell BHG subject to the satisfaction of certain conditions. Moreover, there are certain limitations on our ability to sell our interest in BHG without first offering BHG and the other members a right of first refusal.

A significant portion of BHG's revenue (and correspondingly our interest in any of BHG's net profits) comes from the sale of loans originated by BHG to community banks, and the market for these loans. Moreover, the purchase price we paid to acquire our interest in BHG was based on our expectation that BHG will continue to grow its business and increase the amount of loans that it is able to originate and sell. In the event that BHG's loan growth slows over historical levels and the resulting loan sales decrease, its results of operations (and our interest in the net profits of BHG) would be materially and adversely affected and our non-interest income would be adversely affected. BHG currently operates in most states without the need for a permit or any other license. In the event that BHG was required to register or become licensed in any state in which it operates, or regulations are adopted that seek to limit BHG's ability to operate in any jurisdiction or that seek to limit the amounts of interest that BHG can charge on its loans, BHG's results of operations (and our interest in BHG's net profits) could be materially and adversely affected.

We anticipate that foreclosed real estate expense will continue to negatively impact our earnings.

As we acted to resolve non-performing real estate loans over the last few years, our level of other real estate owned was elevated in comparison to our first six years of operation. As a result, we experienced elevated levels of foreclosed real estate expense. Foreclosed real estate expense consists of three types of charges: maintenance costs, valuation adjustments to appraisal values and gains or losses on disposition. Should levels of other real estate owned increase or should local real estate values decline, these charges will continue to negatively impact our results of operations.

Our loan portfolio includes a meaningful amount of real estate construction and development loans, which have a greater credit risk than residential mortgage loans.

Although we have made meaningful progress over the last three years in reducing our concentration of real estate construction and development loans, the percentage of these loans in Pinnacle Bank's portfolio was approximately 7.0% of total loans at December 31, 2014. These loans make up approximately 31.0% of our non-performing loans at December 31, 2014. This type of lending is generally considered to have relatively high credit risks because the principal is concentrated in a limited number of loans with repayment dependent on the successful completion and operation of the related real estate project. The credit quality of many of these loans deteriorated during the challenging economic period of 2008 to 2012 due to the adverse conditions in the real estate market during that period and that type of deterioration could occur again. Weakness in residential real estate market prices as well as demand could result in price reductions in home and land values adversely affecting the value of collateral securing the construction and development loans that we hold. Should we experience the return of these adverse economic and real estate market conditions we may again experience increases in non-performing loans and other real estate owned, increased losses and expenses from the management and disposition of non-performing assets, increases in provision for loan losses, and increases in operating expenses as a result of the allocation of management time and resources to the collection and work out of loans, all of which would negatively impact our financial condition and results of operations.

Changes to capital requirements for bank holding companies and depository institutions that became effective on January 1, 2015 may negatively impact Pinnacle Financial's and Pinnacle Bank's results of operations

In July 2013, the Federal Reserve Board and the FDIC approved final rules that substantially amend the regulatory risk-based capital rules applicable to Pinnacle Bank and Pinnacle Financial. The final rules, which became effective on January 1, 2015, implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act.

Under these rules, the leverage and risk-based capital ratios of bank holding companies may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The final rules include new minimum risk-based capital and leverage ratios. Moreover, these rules refine the definition of what constitutes "capital" for purposes of calculating those ratios, including the definitions of Tier 1 capital and Tier 2 capital. The new minimum capital level requirements applicable to bank holding companies and banks subject to the rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6% (increased from 4%); (iii) a total risk-based capital ratio of 8% (unchanged from current rules); (iv) a Tier 1 leverage ratio of 4% for all institutions. The rules also establish a "capital conservation buffer" of 2.5% (to be phased in over three years) above the new regulatory minimum risk-based capital ratios, and result in the following minimum ratios once the capital conservation buffer is fully phased in: (i) a common equity Tier 1 risk-based capital ratio of 7%, (ii) a Tier 1 risk-based capital ratio of 8.5%, and (iii) a total risk-based capital ratio of 10.5%. The capital conservation buffer requirement is to be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. We will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if our capital levels fall below these minimums plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Under these new rules, Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings, limited amounts of minority interest in the form of additional Tier 1 capital instruments, and non-cumulative preferred stock and related surplus, subject to certain eligibility standards, less goodwill and other specified intangible assets and other regulatory deductions. Cumulative preferred stock and trust preferred securities issued after May 19, 2010, no longer qualify as Tier 1 capital, but such securities issued prior to May 19, 2010, including in the case of bank holding companies with less than $15.0 billion in total assets, trust preferred securities issued prior to that date, continue to count as Tier 1 capital subject to certain limitations. The definition of Tier 2 capital is generally unchanged for most banking organizations, subject to certain new eligibility criteria.

Common equity Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings plus limited amounts of minority interest in the form of common stock, less goodwill and other specified intangible assets and other regulatory deductions.

The final rules allow banks and their holding companies with less than $250 billion in assets a one-time opportunity to opt-out of a requirement to include unrealized gains and losses in accumulated other comprehensive income in their capital calculation. Pinnacle Financial and Pinnacle Bank expect that each of them will opt-out of this requirement.

The application of more stringent capital requirements for Pinnacle Financial and Pinnacle Bank, like those adopted to implement the Basel III reforms, could, among other things, result in lower returns on invested capital, require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy and could limit our ability to make distributions, including paying dividends or buying back shares.

We are dependent on our information technology and telecommunications systems and third-party servicers, and systems failures, interruptions or breaches of security could have an adverse effect on our financial condition and results of operations.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify these systems as circumstances warrant, the security of our computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. We outsource many of our major systems, such as data processing, loan servicing and deposit processing systems. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If sustained or repeated, a system failure or service denial could result in a deterioration of our ability to process new and renewal loans, gather deposits and provide customer service, compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

In addition, we provide our customers the ability to bank remotely, including over the Internet or through their mobile device. The secure transmission of confidential information is a critical element of remote and mobile banking. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches (including breaches of security of customer systems and networks) and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could adversely affect our reputation, results of operations and ability to attract and maintain customers and businesses. In addition, a security breach could also subject us to additional regulatory scrutiny, expose us to civil litigation and possible financial liability and cause reputational damage.

Environmental liability associated with commercial lending could result in losses.

In the course of business, Pinnacle Bank may acquire, through foreclosure, or deed in lieu of foreclosure, properties securing loans it has originated or purchased which are in default. Particularly in commercial real estate lending, there is a risk that hazardous substances could be discovered on these properties. In this event, we, or Pinnacle Bank, might be required to remove these substances from the affected properties at our sole cost and expense. The cost of this removal could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have a material adverse effect on our business, results of operations and financial condition.

National or state legislation or regulation may increase our expenses and reduce earnings.

Bank regulators are increasing regulatory scrutiny, and additional restrictions (including those originating from the Dodd-Frank Act) on financial institutions have been proposed or adopted by regulators and by Congress. Changes in tax law, federal legislation, regulation or policies, such as bankruptcy laws, deposit insurance, consumer protection laws, and capital requirements, among others, can result in significant increases in our expenses and/or charge-offs, which may adversely affect our earnings. Changes in state or federal tax laws or regulations can have a similar impact. Many state and municipal governments, including the State of Tennessee, though showing signs of improvement, remain under financial stress due to the economy. As a result, these governments could seek to increase their tax revenues through increased tax levies which could have a meaningful impact on our results of operations. Furthermore, financial institution regulatory agencies are expected to continue to be very aggressive in responding to concerns and trends identified in examinations, including the continued issuance of additional formal or informal enforcement or supervisory actions. These actions, whether formal or informal, could result in our agreeing to limitations or to take actions that limit our operational flexibility, restrict our growth or increase our capital or liquidity levels. Failure to comply with any formal or informal regulatory restrictions, including informal supervisory actions, could lead to further regulatory enforcement actions. Negative developments in the financial services industry and the impact of recently enacted or new legislation in response to those developments could negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance. In addition, industry, legislative or regulatory developments may cause us to materially change our existing strategic direction, capital strategies, compensation or operating plans.

Implementation of the various provisions of the Dodd-Frank Act may increase our operating costs or otherwise have a material effect on our business, financial condition or results of operations.

On July 21, 2010, President Obama signed the Dodd-Frank Act. This landmark legislation includes, among other things, (i) the creation of a Financial Services Oversight Counsel to identify emerging systemic risks and improve interagency cooperation; (ii) the elimination of the Office of Thrift Supervision and the transfer of oversight of federally chartered thrift institutions and their holding companies to the Office of the Comptroller of the Currency and the Federal Reserve; (iii) the creation of a Consumer Financial Protection Agency authorized to promulgate and enforce consumer protection regulations relating to financial products that would affect banks and non-bank finance companies; (iv) the establishment of new capital and prudential standards for banks and bank holding companies; (v) the termination of investments by the U.S. Treasury under TARP; (vi) enhanced regulation of financial markets, including the derivatives, securitization and mortgage origination markets; (vii) the elimination of certain proprietary trading and private equity investment activities by banks; (viii) the elimination of barriers to de novo interstate branching by banks; (ix) a permanent increase of FDIC deposit insurance to $250,000; (x) the authorization of interest-bearing transaction accounts; and (xi) changes in how the FDIC deposit insurance assessments will be calculated and an increase in the minimum designated reserve ratio for the Deposit Insurance Fund.

Certain provisions of the legislation are not immediately effective or are subject to required studies and implementing regulations. Further, community banks with less than $10 billion in assets (like us) are exempt from certain provisions of the legislation. In the event that our assets were to exceed $10 billion, we would become subject to these additional regulations and our results of operations may be materially impacted by the additional costs to comply with these additional regulations. Although several regulations implementing portions of the Dodd-Frank Act have been promulgated, we are still unable to predict how this significant new legislation may be interpreted and enforced or how implementing regulations and supervisory policies may affect us. There can be no assurance that these or future reforms will not significantly increase our compliance or operating costs or otherwise have a significant impact on our business, financial condition and results of operations.

Future expansion and acquisitions may result in additional risks.

We expect to continue to expand through additional branches and may consider other geographic expansion, including possible acquisitions of all or part of other financial institutions. Such expansions involve various risks, including:

- The difficulty of successfully integrating the acquired institutions or branches with our existing systems;
- Inaccurate estimates or assessments of the future management, market, operating results or credit quality of acquired institutions or branches or products
- Incurrence of goodwill and other intangibles and potential for potential impairment of these intangibles and the adverse impact on future results of operations;
- Potential for loss of employees or customers of the acquired institution or branch and difficulty of attracting new employees and customers to denovo branches; and
- Potential for diversion or disruption of our existing operations or management as well as those of the acquired institution.

Our ability to maintain required capital levels and adequate sources of funding and liquidity could be impacted by changes in the capital markets and deteriorating economic and market conditions.

We, and Pinnacle Bank, are required to maintain certain capital levels established by banking regulations or specified by bank regulators, including those capital maintenance standards imposed on us as a result of the Dodd-Frank Act, and we are required to serve as a source of strength to Pinnacle Bank. We must also maintain adequate funding sources in the normal course of business to support our operations and fund outstanding liabilities. Our ability to maintain capital levels, sources of funding and liquidity could be impacted by changes in the capital markets in which we operate and deteriorating economic and market conditions. Pinnacle Bank is required to obtain regulatory approval in order to pay dividends to us unless the amount of such dividends does not exceed its retained net income for that calendar year plus net income for the preceding two years. Any restriction in the ability of Pinnacle Bank to pay dividends to us could impact our ability to continue to pay dividends on our common stock. Moreover, failure by our bank subsidiary to meet applicable capital guidelines or to satisfy certain other regulatory requirements could subject our bank subsidiary to a variety of enforcement remedies available to the federal regulatory authorities.

Certain of our deposits and other funding sources may be volatile and impact our liquidity.

In addition to the traditional core deposits, such as demand deposit accounts, interest checking, money market savings and certificates of deposits less than $250,000, we utilize or in the past have utilized several noncore funding sources, such as brokered certificates of deposit, Federal Home Loan Bank (FHLB) of Cincinnati advances, federal funds purchased and other sources. We utilize these noncore funding sources to fund the ongoing operations and growth of Pinnacle Bank. The availability of these noncore funding sources is subject to broad economic conditions and to investor assessment of our financial strength and, as such, the cost of funds may fluctuate significantly and/or be restricted, thus impacting our net interest income, our immediate liquidity and/or our access to additional liquidity. We have somewhat similar risks to the extent high balance core deposits exceed the amount of deposit insurance coverage available.

We impose certain internal limits as to the absolute level of noncore funding we will incur at any point in time. Should we exceed those limitations, we may need to modify our growth plans, liquidate certain assets, participate loans to correspondents or execute other actions to allow for us to return to an acceptable level of noncore funding within a reasonable amount of time.

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If the federal funds and interbank funding rates remain at current extremely low levels, our net interest margin, and consequently our net earnings, may be negatively impacted.

Because of significant competitive pressures in our market and the negative impact of these pressures on our deposit and loan pricing, coupled with the fact that a significant portion of our loan portfolio has variable rate pricing that moves in concert with changes to the Federal Reserve Board of Governors' federal funds rate or the London Interbank Offered Rate (LIBOR) (both of which are at extremely low levels as a result of current economic conditions), our net interest margin may be negatively impacted. Additionally, the amount of non-accrual loans and other real estate owned has been and may continue to be elevated. We also expect loan pricing to remain competitive in 2015 and believe that economic factors affecting broader markets will likely result in reduced yields for our investment securities portfolio. As a result, our net interest margin, and consequently our profitability, may continue to be negatively impacted in 2015 and beyond.

A decline in our stock price or expected future cash flows, or a material adverse change in our results of operations or prospects, could result in impairment of our goodwill.

A significant and sustained decline in our stock price and market capitalization below book value, a significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates or other factors could result in impairment of our goodwill. At December 31, 2014, our goodwill and other identifiable intangible assets totaled approximately $246.4 million. If we were to conclude that a write-down of our goodwill is necessary, then the appropriate charge would likely cause a material loss. Any significant loss would further adversely impact the capacity of Pinnacle Bank to pay dividends to us without seeking prior regulatory approval, which could adversely affect our ability to pay required interest payments and preferred stock dividends.

Competition with other banking institutions could adversely affect our profitability.

A number of banking institutions in the Nashville and Knoxville MSAs have higher lending limits, more banking offices, and a larger market share of loans or deposits than do we. In addition, our asset management division competes with numerous brokerage firms and mutual fund companies which are also much larger. In some respects, this may place these competitors in a competitive advantage. This competition may limit or reduce our profitability, reduce our growth and adversely affect our results of operations and financial condition.

Inability to retain senior management and key employees or to attract new experienced financial services professionals could impair our relationship with our customers, reduce growth and adversely affect our business.

We have assembled a senior management team which has substantial background and experience in banking and financial services in the Nashville and Knoxville markets. Moreover, much of our loan growth in 2012 through 2014 was the result of our ability to attract experienced financial services professionals who have been able to attract customers from other financial institutions. Inability to retain these key personnel or to continue to attract experienced lenders with established books of business could negatively impact our growth because of the loss of these individuals' skills and customer relationships and/or the potential difficulty of promptly replacing them.

We are subject to certain litigation, and our expenses related to this litigation may adversely affect our results.

We are from time to time subject to certain litigation in the ordinary course of our business. These claims and legal actions, including supervisory actions by our regulators, could involve large monetary claims and significant defense costs. The outcome of these cases is uncertain. However, we have seen both the number of cases and our expenses related to those cases increase. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects.

We may issue additional common stock or other equity securities in the future which could dilute the ownership interest of existing stockholders.

In order to maintain our or Pinnacle Bank's capital at desired or regulatory-required levels, we may issue additional shares of common stock, or securities convertible into, exchangeable for or representing rights to acquire shares of common stock. We may sell these shares at prices below the current market price of shares, and the sale of these shares may significantly dilute stockholder ownership. We could also issue additional shares in connection with acquisitions of other financial institutions, which would also dilute stockholder ownership.

Even though our common stock is currently traded on the Nasdaq Stock Market's Global Select Market, it has less liquidity than many other stocks quoted on a national securities exchange.

The trading volume in our common stock on the Nasdaq Global Select Market has been relatively low when compared with larger companies listed on the Nasdaq Global Select Market or other stock exchanges. Although we have experienced increased liquidity in our stock, we cannot say with any certainty that a more active and liquid trading market for our common stock will continue to develop. Because of this, it may be more difficult for stockholders to sell a substantial number of shares for the same price at which stockholders could sell a smaller number of shares.

We cannot predict the effect, if any, that future sales of our common stock in the market, or the availability of shares of common stock for sale in the market, will have on the market price of our common stock. We can give no assurance that sales of substantial amounts of common stock in the market, or the potential for large amounts of sales in the market, would not cause the price of our common stock to decline or impair our future ability to raise capital through sales of our common stock.

The market price of our common stock has fluctuated significantly, and may fluctuate in the future. These fluctuations may be unrelated to our performance. General market or industry price declines or overall market volatility in the future could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices.

If a change in control is delayed or prevented, the market price of our common stock could be negatively affected.

Provisions in our corporate documents, as well as certain federal and state regulations, may make it difficult and expensive to pursue a tender offer, change in control or takeover attempt that our board of directors opposes. As a result, our stockholders may not have an opportunity to participate in such a transaction, and the trading price of our stock may not rise to the level of other institutions that are more vulnerable to hostile takeovers. Anti-takeover provisions contained in our charter also will make it more difficult for an outside stockholder to remove our current board of directors or management.

Holders of Pinnacle Financial's indebtedness and junior subordinated debentures have rights that are senior to those of Pinnacle Financial's stockholders.

Pinnacle Financial has issued trust preferred securities from special purpose trusts and accompanying junior subordinated debentures. At December 31, 2014, Pinnacle Financial had outstanding trust preferred securities and accompanying junior subordinated debentures totaling $82.5 million. Payments of the principal and interest on the trust preferred securities of these trusts are conditionally guaranteed by Pinnacle Financial. Further, the accompanying junior subordinated debentures Pinnacle Financial issued to the trusts are senior to Pinnacle Financial's shares of common stock. As a result, Pinnacle Financial must make payments on the junior subordinated debentures before any dividends can be paid on common stock and, in the event of Pinnacle Financial's bankruptcy, dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made on Pinnacle Financial's common stock. Pinnacle Financial has the right to defer distributions on its junior subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid

on its common stock. If our financial condition deteriorates or if we do not receive required regulatory approvals, we may be required to defer distributions on our junior subordinated debentures.

On June 15, 2012, Pinnacle Financial entered into a loan agreement with a bank for $25 million, which was subsequently amended on October 2, 2013 (the "Loan Agreement"). Borrowings under the Loan Agreement, combined with available cash, were used for the redemption, on June 20, 2012, of the remaining 71,250 shares of preferred stock owned by the U.S. Treasury that had been issued under the CPP. Pinnacle Financial is required to make quarterly principal payments of $625,000 which began on September 30, 2012, until the loan matures on June 15, 2017. The Loan Agreement includes negative covenants that limit, among other things, certain fundamental transactions, additional indebtedness, transactions with affiliates, liens, and sales of assets. As amended, the Loan Agreement permits Pinnacle Financial to pay dividends so long as there is no event of default or unmatured event of default under the Loan Agreement and the payment of the dividend would not cause an event of default or unmatured event of default. The Loan Agreement specifically restricts transfers or encumbrances of the shares of the capital stock of Pinnacle Financial's bank subsidiary. The Loan Agreement also includes financial covenants related to Pinnacle Financial's, and in some cases, Pinnacle Bank's, capitalization, levels of risk-based capital, ratio of nonperforming assets to tangible primary capital and ratio of allowance for loan and lease losses to nonperforming loans. The Loan Agreement also contains other customary affirmative and negative covenants, representations, warranties and events of default, which include but are not limited to, payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, and the institution of certain regulatory enforcement actions against Pinnacle Financial or Pinnacle Bank. If an event of default occurs and is continuing, Pinnacle Financial may be required immediately to repay all amounts outstanding under the Loan Agreement. Furthermore, in the event of Pinnacle Financial's bankruptcy, dissolution or liquidation, the holders of this borrowing must be satisfied before any distributions can be made on Pinnacle Financial's common stock.

On February 4, 2015, Pinnacle Bank entered into a loan agreement (the "Bank Loan Agreement") with a bank for $40 million, the borrowings from which Pinnacle Bank used to acquire a 30% interest in BHG. The Bank Loan Agreement contains many of the same affirmative and negative covenants as are in the Loan Agreement. If an event of default occurs under the Bank Loan Agreement, Pinnacle Bank may be required to pay all amounts outstanding under the Bank Loan Agreement. Moreover, in the event of Pinnacle Bank's bankruptcy, dissolution or liquidation the obligations under the Bank Loan Agreement must be repaid before any distributions can be made to Pinnacle Financial.

Our business is dependent on technology, and an inability to invest in technological improvements may adversely affect our results of operations and financial condition.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. We have made significant investments in data processing, management information systems and internet banking accessibility. Our future success will depend in part upon our ability to create additional efficiencies in our operations through the use of technology. Many of our competitors have substantially greater resources to invest in technological improvements. We cannot make assurances that our technological improvements will increase our operational efficiency or that we will be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

We are subject to various statutes and regulations that may impose additional costs or limit our ability to take certain actions.

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various regulatory agencies. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged on loans, interest rates paid on deposits and locations of offices. We are also subject to capital requirements established by our regulators, which require us to maintain specified levels of capital. It is possible that our FDIC assessments may increase in the future. Any future assessment increases could negatively impact our results of operations. Significant

changes in laws and regulations applicable to the banking industry have been recently adopted and others are being considered in Congress. We cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of commercial banks and bank holding companies, our cost of compliance could adversely affect our ability to operate profitably.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's executive offices are located at 150 Third Avenue South, Suite 900, Nashville, Tennessee. The Company operates 34 banking locations throughout our market areas, including 10 for which the Company leases the land, the building or both. The Company has locations in the Tennessee municipalities of Nashville, Knoxville, Murfreesboro, Dickson, Ashland City, Mt. Juliet, Lebanon, Franklin, Brentwood, Hendersonville, Goodlettsville, Smyrna and Shelbyville.

ITEM 3. LEGAL PROCEEDINGS

Various legal proceedings to which Pinnacle Financial or a subsidiary of Pinnacle Financial is party arise from time to time in the normal course of business. As of the date hereof, there are no material pending legal proceedings to which Pinnacle Financial or any of its subsidiaries is a party or of which any of its or its subsidiaries' properties are subject.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Pinnacle Financial's common stock is traded on the Nasdaq Global Select Market under the symbol "PNFP" and has traded on that market since July 3, 2006. The following table shows the high and low sales price information for Pinnacle Financial's common stock for each quarter in 2014 and 2013 as reported on the Nasdaq Global Select Market.

	Price Per Share	
	High	Low
2014:		
First quarter	$39.10	$30.68
Second quarter	39.85	32.77
Third quarter	40.10	34.73
Fourth quarter	40.30	33.93
2013:		
First quarter	$23.94	$18.97
Second quarter	26.30	21.32
Third quarter	30.18	25.79
Fourth quarter	33.36	29.48

As of February 18, 2014, Pinnacle Financial had approximately 35,809,746 stockholders of record.

During the fourth quarter of 2013, we paid a quarterly dividend on our common stock for the first time. The amount of the initial dividend was $0.08 per share. During 2014, we paid a quarterly cash dividend of $0.08 during each of the first, second, third and fourth quarters of 2014. During the first quarter of 2015, we declared a dividend of $0.12 per share to be paid on February 27, 2015. See ITEM 1. "Business – Supervision and Regulation – Payment of Dividends" and ITEM 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information on dividend restrictions applicable to Pinnacle Financial and Pinnacle Bank.

In connection with the settlement of income tax liabilities associated with the Company's equity compensation plans, Pinnacle Financial repurchased shares of its common stock during the quarter ended December 31, 2014 as follows:

Period	Total Number of Shares Repurchased	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
October 1, 2014 to October 31, 2014	440	$ 37.93	-	-
November 1, 2014 to November 30, 2014	1,554	38.61	-	-
December 1, 2014 to December 31, 2014	-	-	-	-
Total	1,994	$ 38.46	-	-

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ITEM 6. SELECTED FINANCIAL DATA

	2014	2013	2012	2011	2010
Total assets	$6,018,248	$5,563,776	$5,040,549	$4,863,951	$4,909,004
Loans, net of unearned income	4,590,027	4,144,493	3,712,162	3,291,351	3,212,440
Allowance for loan losses	67,359	67,970	69,417	73,975	82,575
Total securities	770,730	733,252	707,153	897,292	1,018,637
Goodwill, core deposit and other intangible assets	246,422	247,492	249,144	251,919	254,795
Deposits and securities sold under agreements to repurchase	4,876,600	4,603,938	4,129,855	3,785,931	3,979,352
Advances from FHLB	195,476	90,637	75,850	226,069	121,393
Subordinated debt and other borrowings	96,158	98,658	106,158	97,476	97,476
Stockholders' equity	802,693	723,708	679,071	710,145	677,457
Statement of Operations Data:					
Interest income	$206,170	$191,282	$185,422	$188,346	$203,348
Interest expense	13,185	15,384	22,557	36,882	58,975
Net interest income	192,985	175,899	162,865	151,464	144,373
Provision for loan losses	3,635	7,856	5,569	21,798	53,695
Net interest income after provision for loan losses	189,350	168,042	157,296	129,666	90,678
Noninterest income	52,602	47,104	43,397	37,940	36,315
Noninterest expense	136,300	129,261	138,165	139,107	146,883
Income (loss) before income taxes	105,653	85,884	62,527	28,499	(19,890)
Income tax expense (benefit)	35,182	28,158	20,643	(15,238)	4,410
Net income (loss)	70,471	57,726	41,884	43,737	(24,300)
Preferred dividends and accretion on common stock warrants	-	-	3,814	6,665	6,142
Net income (loss) available to common stockholders	$70,471	$57,726	$38,070	$37,072	$(30,442)
Per Share Data:					
Earnings (loss) per share available to common stockholders – basic	$2.03	$1.69	$1.12	$1.11	$(0.93)
Weighted average common shares outstanding – basic	34,723,335	34,200,770	33,899,667	33,420,015	32,789,871
Earnings (loss) per common share available to common stockholders – diluted	$2.01	$1.67	$1.10	$1.09	$(0.93)
Weighted average common shares outstanding – diluted	35,126,890	34,509,261	34,487,808	34,060,228	32,789,871
Common dividends per share	$0.32	$0.08	-	-	-
Book value per common share	$22.45	$20.55	$19.57	$18.56	$17.22
Tangible book value per common share	$15.62	$13.52	$12.39	$11.33	$9.80
Common shares outstanding at end of period	35,732,483	35,221,941	34,696,597	34,354,960	33,870,380
Performance Ratios:					
Return on average assets	1.24 %	1.11 %	0.78 %	0.77 %	(0.61 %)
Return on average stockholders' equity	9.19 %	8.22 %	5.46 %	5.27 %	(4.37 %)
Net interest margin (1)	3.75 %	3.77 %	3.77 %	3.55 %	3.25 %
Net interest spread (2)	3.65 %	3.65 %	3.61 %	3.33 %	2.99 %

Noninterest income to average assets	0.92 %	0.90 %	0.89 %	0.78 %	0.72 %
Noninterest expense to average assets	2.39 %	2.48 %	2.83 %	2.88 %	2.93 %
Efficiency ratio [3]	55.50 %	57.96 %	66.99 %	73.45 %	81.29 %
Average loan to average deposit ratio	93.15 %	93.46 %	92.78 %	86.76 %	87.64 %
Average interest-earning assets to average interest-bearing liabilities	142.64 %	137.78 %	131.44 %	125.84 %	120.27 %
Average equity to average total assets ratio	13.46 %	13.47 %	14.30 %	14.55 %	13.90 %
Dividend payout ratio[4]	16.67 %	20.38 %	-	-	-
Asset Quality Ratios:					
Allowance for loan losses to nonaccrual loans	403.20 %	373.80 %	304.20 %	154.60 %	102.10 %
Allowance for loan losses to total loans	1.47 %	1.64 %	1.87 %	2.25 %	2.57 %
Nonperforming assets to total assets	0.46 %	0.60 %	0.82 %	1.80 %	2.86 %
Nonperforming assets to total loans and other real estate	0.61 %	0.80 %	1.11 %	2.66 %	4.29 %
Net loan charge-offs to average loans	0.10 %	0.24 %	0.29 %	0.94 %	1.96 %
Capital Ratios (Pinnacle Financial):					
Leverage [5]	11.30 %	10.90 %	10.60 %	11.40 %	10.70 %
Tier 1 risk-based capital	12.10 %	11.80 %	11.80 %	13.80 %	13.80 %
Total risk-based capital	13.40 %	13.00 %	13.00 %	15.30 %	15.40 %

(1) Net interest margin is the result of net interest income for the period divided by average interest earning assets.

(2) Net interest spread is the result of the difference between the interest earned on interest earning assets less the interest paid on interest bearing liabilities.

(3) Efficiency ratio is the result of noninterest expense divided by the sum of net interest income and noninterest income.

(4) Annualized for 2013.

(5) Leverage ratio is computed by dividing Tier 1 capital by average total assets for the fourth quarter of each year.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our financial condition at December 31, 2014 and 2013 and our results of operations for each of the years in the three-year period ended December 31, 2014. The purpose of this discussion is to focus on information about our financial condition and results of operations which is not otherwise apparent from the consolidated financial statements. The following discussion and analysis should be read along with our consolidated financial statements and the related notes included elsewhere herein.

Overview

General. Our diluted net income per common share available to common stockholders for the year ended December 31, 2014 was $2.01 compared to diluted net income per common share available to common stockholders of $1.67 and $1.10 for the years ended December 31, 2013 and 2012, respectively.

Results of operations. Our net interest income increased to $193.0 million for 2014 compared to $175.9 million for 2013 and $162.9 million for 2012. The net interest margin (the ratio of net interest income to average earning assets) for 2014 was 3.75% compared to 3.77% for both 2013 and 2012. Our net interest margin was impacted favorably in all three years by loan growth, an increased effort to reduce our cost of funds and a decreased dependency on higher priced funding.

Our provision for loan losses was $3.6 million for 2014 compared to $7.9 million in 2013 and $5.6 million in 2012. Our net charge-offs were $4.2 million during 2014 compared to $9.3 million in 2013 and $10.1 million in 2012. During 2014, we decreased our allowance for loan losses as a percentage of loans from 1.64% at December 31, 2013 to 1.47% at December 31, 2014 primarily due to the ongoing resolution of non-performing loans, the reduction in our net charge-offs and improvements in the overall credit quality of our loan portfolio during 2014.

Noninterest income for 2014 compared to 2013 increased by $5.5 million, or 11.7%. This growth was primarily attributable to an increased number of deposit accounts which resulted in increased service charge and interchange revenues as well as increased production in our fee-based products such as investments, insurance and trust. Noninterest income for 2013 compared to 2012 increased by $3.7 million, or 8.5%, which was also largely impacted by increased production in our fee-based products such as investments, insurance and trust.

Noninterest expense for 2014 compared to 2013 increased by $7.0 million, or 5.5%, primarily due to an increase in salaries and employee benefits expense, which increased by $5.7 million and higher equipment and occupancy costs due to the expansion of our corporate headquarters in Nashville, TN as well as the addition of an office in Knoxville, TN during the fourth quarter of 2014, partly offset by decreased other real estate owned expense. Noninterest expense for 2013 compared to 2012 decreased by $8.9 million, or 6.4%, primarily due to decreased other real estate owned expenses, which decreased by $8.4 million over the 2012 levels, decreased amortization expense of $1.5 million, and decreased other noninterest expenses of $4.3 million offset in part by higher salaries and employee benefits expense, which increased by $4.6 million. The number of full-time equivalent employees increased from 730.5 at December 31, 2012 to 751.0 and 764.0 at December 31, 2013 and 2014, respectively.

Income tax expense for 2014 was $35.2 million compared to $28.2 million in 2013 and $20.6 million in 2012. The effective income tax expense rate for the year ended December 31, 2014 was approximately 33.3% compared to 32.8% and 33.0% for the years ended December 31, 2013 and 2012, respectively. For each of the three years ended December 31, 2014, our effective income tax rate differs from the statutory rates primarily due to our investments in bank qualified municipal securities, our real estate investment trust and bank-owned life insurance.

Net income available to common stockholders for 2014 was $70.5 million compared to $57.7 million in net income in 2013 and $38.1 million in 2012. Included in net income available to common stockholders for the year ended

December 31, 2012 was approximately $3.8 million of charges related to preferred stock dividends and accretion of the preferred stock discount related to our participation in the U.S. Treasury's TARP Capital Purchase Program (CPP). The charges associated with the preferred stock in fiscal 2012 included the acceleration of the preferred stock discount associated with the redemption of the remaining 71,250 shares of Series A preferred stock during the second quarter of 2012.

Financial Condition. Our loan balances increased by $445.5 million during 2014 compared to an increase of $432.3 million in 2013. The increase in our outstanding loan balances represents the result of increases in the number of relationship advisors in our markets and increased focus on attracting new customers to our Company.

Total deposits increased from $4.533 billion at December 31, 2013 to $4.783 billion at December 31, 2014. Within our deposits, the ratio of core funding to total deposits decreased slightly from 85.5% at December 31, 2013 to 84.8% at December 31, 2014.

We believe we have hired experienced relationship managers that have significant client portfolios and longstanding reputations within the communities we serve. As such, we believe they will attract more relationship managers to our firm as well as loans and deposits from new and existing small-and middle-market clients as the economies in our principal markets continue to expand.

Capital and Liquidity. At December 31, 2014 and 2013, our capital ratios, including our bank's capital ratios, exceeded regulatory minimum capital requirements. From time to time we may be required to support the capital needs of our bank subsidiary. We believe we have various capital raising techniques available to us to provide for the capital needs of our bank, if necessary.

Critical Accounting Estimates

The accounting principles we follow and our methods of applying these principles conform with U.S. generally accepted accounting principles and with general practices within the banking industry. In connection with the application of those principles, we have made judgments and estimates which, in the case of the determination of our allowance for loan losses, the valuation of other real estate owned, the assessment of the valuation of deferred tax assets and the assessment of impairment of intangibles, has been critical to the determination of our financial position and results of operations.

Allowance for Loan Losses (allowance). Our 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 portfolio, loan loss experience, asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay the loan (including the timing of future payment), 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, including regulatory recommendations. The level of allowance maintained by management is believed adequate to absorb probable losses inherent in the loan portfolio at the balance sheet date. The allowance is increased by provisions charged to expense and decreased by charge-offs, net of recoveries of amounts previously charged-off. Allocation of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, is deemed uncollectible.

In assessing the adequacy of the allowance, we also consider the results of our ongoing independent loan review process. We undertake this process both to ascertain those loans in the portfolio with elevated credit risk and to assist in our overall evaluation of the risk characteristics of the entire loan portfolio. Our loan review process includes the judgment of management, independent internal loan reviewers, and reviews that may have been conducted by third-party reviewers including regulatory examiners. We incorporate relevant loan review results in the allowance.

Our allowance for loan losses is composed of the result of two independent analyses pursuant to the provisions of ASC 450-20, Loss Contingencies and ASC 310-10-35, Receivables. The ASC 450-20 analysis is intended to quantify the inherent risk in our performing loan portfolio. The component of the allowance generated by ASC 310-10-35 is the result of a loan-by-loan analysis of impaired loans $250,000 and greater and the resulting impairment percentage being applied to all loans below $250,000.

The ASC 450-20 component of the allowance for loan losses begins with a process of estimating the probable losses based on our internal system of risk ratings and historical loss data for our risk rated portfolio. Prior to 2010, because of our limited loss history, loss estimates were primarily derived from historical loss data by loan categories for comparable peer institutions. During 2010, we incorporated the results of our own historical migration analysis of all loans that were charged-off during the prior eight quarters. The look-back period in our migration analysis was extended in 2011 to eleven quarters to continue to include the losses incurred in the second quarter of 2009. Subsequently, we have increased our look-back period each quarter to

include the most recent quarters' loss history for a total of 23 quarters as of December 31, 2014. In this current economic environment, we believe the extension of our look-back period in our migration analysis has been appropriate due to the risks inherent in our loan portfolio. Additionally, as the most recent 12 quarters are considered more relevant in this current economic cycle, they have been weighted more than the earliest 11 quarters. The weighting of these quarters will be determined based upon our assessment of the relevance of each quarter in the economic cycle. During the fourth quarter of 2014, we validated our loss emergence period in order to improve our assessment of the migration loss analysis. The loss emergence period is the length of time from an initial event which triggered the loss to the recognition of the loss. The loss emergence period was determined for the losses in each category of loans and then applied to the resulting loss migration analysis. The application of a loss emergence period adjusts the migration analysis for each loan category to a more precise length of time which may be greater than or less than one year. This migration analysis assists in evaluating loan loss allocation rates for the various risk grades assigned to loans in our portfolio.

The allowance allocation for non risk-rated portfolios is based on consideration of our actual historical loss rates and are evaluated as a group by category rather than on an individual loan basis because these loans are smaller and homogeneous. We weight the allocation methodologies for the non risk-rated loan portfolio and determine a weighted average allocation for these portfolios.

The estimated loan loss allocation for all loan segments is then adjusted for management's estimate of probable losses for a number of environmental factors that have not been fully considered in either the loan by loan impairment or migration analyses. The environmental categories and the measurements used to quantify the risks within each of these categories are subjectively selected by management. The data for each measurement is determined from both internal and external sources. The resulting measurements are assigned a risk factor against the non impaired loan portfolio based upon where each measurement falls on a pre-determined level of risk on a nine point scale. This amount represents estimated probable inherent credit losses which exist, but have not yet been identified either in our risk rating or impairment process, as of the balance sheet date, and is based upon quarterly trend assessments in various concentrations, policy exceptions, economic conditions, loan volume changes, independent loan review, collateral considerations, trends in credit quality, trends in competition and regulatory requirements, enterprise wide risk assessments, modeling risks within the allowance process and peer group credit quality. These environmental factors are considered for each of the five loan segments, and the allowance allocation, as determined by the processes noted above for each segment, is increased or decreased based on the incremental assessment of these various environmental factors.

The ASC 450-20 portion of the allowance also includes an unallocated component. We believe that the unallocated amount is warranted for inherent factors that cannot be practically assigned to individual loan categories, such as the imprecision in the overall loss allocation measurement process, the subjectivity risk of not considering all relevant environmental categories and related measurements and imprecision in our credit risk ratings process.

The second component of the allowance for loan losses is determined pursuant to ASC 310-10-35. Loans are impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Collection of all amounts due according to the contractual terms means collecting all interest and principal payments of a loan as scheduled in the loan agreement. 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. Loan losses are charged off when management believes that the full collectability of the loan is unlikely. A loan may be partially charged-off after a "confirming event" has occurred which serves to validate that full repayment pursuant to the terms of the loan is unlikely.

An impairment allowance is recognized if the fair value of the loan is less than the recorded investment in the loan (recorded investment in the loan is the principal balance plus any accrued interest, net of deferred loan fees or costs and unamortized premium or discount). The impairment is recognized through the provision for loan losses and is a

component of the allowance. Loans that are impaired are recorded at the present value of expected future cash flows discounted at the loan's effective interest rate, or if the loan is collateral dependent, at the fair value of the collateral, less estimated disposal costs. If the loan is collateral dependent, the principal balance of the loan is charged-off in an amount equal to the impairment measurement. The fair value of collateral dependent loans is derived primarily from collateral appraisals performed by independent third-party appraisers. Management believes it follows appropriate accounting and regulatory guidance in determining impairment and accrual status of impaired loans.

Pursuant to the guidance set forth in ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring, the above impairment methodology is also applied to those loans identified as troubled debt restructurings.

We then test the resulting allowance by comparing the balance in the allowance to historical trends and industry and peer information. Our management then evaluates the result of the procedures performed, including the results of our testing, and decides on the appropriateness of the balance of the allowance in its entirety. The audit committee of our board of directors reviews and approves the methodology and resultant allowance prior to the filing of quarterly and annual financial information.

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 and are reviewed from time to time by our regulators, they are necessarily approximate and inherently imprecise. There are factors beyond our control, such as conditions in the local, national, and international economy, a local real estate market or particular industry conditions 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.

Other Real Estate Owned. Other real estate owned (OREO), which consists of properties obtained through foreclosure or through deed in lieu of foreclosure in satisfaction of loans, is reported 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 downward valuation adjustments are determined on a specific property basis and are included as a component of other noninterest expense along with holding costs. The fair value of other real estate owned is derived primarily from independent appraisers. Our internal policies generally require OREO properties to be appraised every nine months. Any net gains or losses on disposal realized at the time of disposal are reflected, net, in noninterest income or noninterest expense, as applicable. Significant judgments and complex estimates are required in estimating the fair value of other real estate owned, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility, as experienced during the last few years. As a result, the net proceeds realized from sales transactions could differ significantly from appraisals, comparable sales, and other estimates used to determine the fair value of other real estate owned.

Impairment of Intangible Assets. Long-lived assets, including purchased intangible assets subject to amortization, such as our core deposit intangible asset, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. There are no such assets to be disposed of at December 31, 2014.

Goodwill is evaluated for impairment annually and more frequently if events and circumstances indicate that the asset might be impaired. Our annual assessment date is September 30. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

ASC 350, Intangibles — Goodwill and Other, regarding testing goodwill for impairment provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity does a qualitative assessment and determines it is necessary, or if a qualitative assessment is not performed, it is required to perform a two-step goodwill impairment test to identify

potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If, based on a qualitative assessment, an entity determines that the fair value of a reporting unit is more than its carrying amount, the two-step goodwill impairment test is not required. The results of our qualitative assessment indicated that the fair value of our reporting unit was more than its carrying value, and accordingly, the two-step goodwill impairment test was not performed.

Should our common stock price decline or other impairment indicators become known, additional impairment testing of goodwill may be required. Should it be determined in a future period that the goodwill has become impaired, then a charge to earnings will be recorded in the period such determination is made. While we believe that the assumptions utilized in our testing were appropriate, they may not reflect actual outcomes that could occur.

Specific factors that could negatively impact the assumptions used include the following: a change in the control premium being realized in the market or a meaningful change in the number of mergers and acquisitions occurring; the amount of expense savings that may be realized in an acquisition scenario; significant fluctuations in our asset/liability balances or the composition of our balance sheet; a change in the overall valuation of the stock market, specifically bank stocks; performance of Southeast U.S. Banks; and Pinnacle Financial's performance relative to peers. Changing these assumptions, or any other key assumptions, could have a material impact on the amount of goodwill impairment, if any.

Results of Operations

The following is a summary of our results of operations for 2014, 2013 and 2012 (in thousands except per share data):

	Years ended December 31, 2014	2013	2014-2013 Percent Increase (Decrease)	Year ended December 31, 2012	2013-2012 Percent Increase (Decrease)
Interest income	$206,170	$191,282	7.78 %	$185,422	3.16 %
Interest expense	13,185	15,384	(14.29 %)	22,557	(31.80 %)
Net interest income	192,985	175,898	9.71 %	162,864	8.00 %
Provision for loan losses	3,635	7,857	(53.74 %)	5,569	41.08 %
Net interest income after provision for loan losses	189,350	168,041	12.68 %	157,295	6.83 %
Noninterest income	52,602	47,104	11.67 %	43,397	8.54 %
Noninterest expense	136,300	129,261	5.45 %	138,165	(6.44 %)
Net income before income taxes	105,653	85,884	23.02 %	62,527	37.35 %
Income tax expense	35,182	28,158	24.94 %	20,643	36.41 %
Net income	70,471	57,726	22.08 %	41,884	37.82 %
Preferred dividends and preferred stock discount accretion	-	-	-	3,814	(100.00 %)
Net income available to common stockholders	$70,471	$57,726	22.08 %	$38,070	51.63 %
Basic net income per common share available to common stockholders	$2.03	$1.69	20.24 %	$1.12	50.70 %
Diluted net income per common share available to common stockholders	$2.01	$1.67	19.93 %	$1.10	52.07 %

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. For the year ended December 31, 2014, we recorded net interest income of approximately $193.0 million, which resulted in a net interest margin (net interest income divided by the average balance of interest earning assets) of 3.75%. For the year ended December 31, 2013, we recorded net interest income of approximately $175.9 million, which resulted in a net interest margin of 3.77%. For the year ended December 31, 2012, we recorded net interest income of approximately $162.9 million, which resulted in a net interest margin of 3.77%.

The following table sets 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 total interest-earning assets and total interest-bearing liabilities, net interest spread and net interest margin for each of the years in the three-year period ended December 31, 2014 (in thousands):

	2014			2013			2012		
	Average Balances	Interest	Rates/ Yields	Average Balances	Interest	Rates/ Yields	Average Balances	Interest	Rates/ Yields
Interest-earning assets:									
Loans [1]	$4,295,283	$184,649	4.31 %	$3,861,166	$169,253	4.40 %	$3,438,401	$160,037	4.66 %
Securities:	-	-		-	-		-	-	
Taxable	594,223	14,227	2.39 %	559,702	14,504	2.59 %	612,677	16,931	2.76 %
Tax-exempt [2]	170,617	6,167	4.83 %	173,202	6,378	4.91 %	182,217	6,577	4.82 %
Federal funds sold and other	155,585	1,127	0.86 %	144,948	1,147	0.93 %	155,876	1,877	1.33 %
Total interest-earning assets	5,215,708	206,170	4.01 %	4,739,018	191,282	4.10 %	4,389,171	185,422	4.29 %
Nonearning assets:	-			-			-		
Intangible assets	246,956			248,291			250,619		
Other nonearning assets	237,383			240,018			233,764		
	$5,700,047			$5,227,327			$4,873,554		
	-			-			-		
Interest-bearing liabilities:	-			-			-		
Interest-bearing deposits:	-			-			-		
Interest checking	$901,442	$1,566	0.17 %	$790,365	$1,928	0.24 %	$677,632	$2,800	0.41 %
Savings and money market	1,975,517	5,711	0.29 %	1,714,154	5,795	0.34 %	1,575,174	7,884	0.50 %
Time deposits	477,902	2,677	0.56 %	564,766	3,998	0.71 %	644,039	6,158	0.96 %
Total interest-bearing deposits	3,354,861	9,954	0.30 %	3,069,285	11,721	0.38 %	2,896,845	16,842	0.58 %
Securities sold under agreements to repurchase	67,999	141	0.21 %	113,742	239	0.21 %	134,989	455	0.34 %
Federal Home Loan Bank advances	134,874	594	0.44 %	153,912	690	0.45 %	202,338	2,237	1.11 %
Subordinated debt and other borrowing	98,698	2,496	2.53 %	102,571	2,734	2.67 %	105,131	3,024	2.87 %
Total interest-bearing liabilities	3,656,432	13,185	0.36 %	3,439,510	15,384	0.45 %	3,339,303	22,558	0.68 %
Noninterest-bearing deposits	1,256,420	-	0.00 %	1,062,089	-	0.00 %	809,268	-	0.00 %
Total deposits and interest- bearing liabilities	4,912,852	13,185	0.27 %	4,501,599	15,384	0.34 %	4,148,571	22,558	0.54 %
Other liabilities	19,971	-		21,631	-		27,933	-	
Stockholders' equity	767,224	-		704,097	-		697,050	-	
	$5,700,047	-		$5,227,327	-		$4,873,554	-	
Net interest income		$192,985			$175,898			$162,864	
Net interest spread [3]			3.65 %			3.65 %			3.61 %
Net interest margin [4]			3.75 %			3.77 %			3.77 %

(1) Average balances of nonperforming loans are included in average loan balances.
(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 year ended December 31, 2014 would have been 3.74% compared to a net interest spread for the years ended December 31, 2013 and 2012 of 3.75% and 3.74%, respectively.

(4) Net interest margin is the result of net interest income calculated on a tax-equivalent basis divided by average interest earning assets for the period.

For the year ended December 31, 2014 and 2013, our net interest spread was 3.65% in both years, while the net interest margin was 3.75% and 3.77%, respectively. The net interest spread and net interest margin were 3.61% and 3.77%, respectively, for the year ended December 31, 2012. The net interest margin has been greatly impacted by management's efforts to increase low cost deposits and increase loan volumes. Our loan yields decreased between 2014 and 2013 as the competition for quality loans continues to be intense and the market dictates the rate necessary in order to grow volumes. During the year ended December 31, 2014, total funding rates were less than those rates for the years ended December 31, 2013 and 2012 by 0.07% and 0.27%, respectively. The net decrease was impacted by the continued shift in our deposit mix, as we increased our lower cost transaction account balances and concurrently reduced balances of higher cost time deposits.

Additionally, lower levels of nonaccrual loans positively impacted our net interest margin during the year ended December 31, 2014 when compared to the same period in 2013. Average nonperforming loans were $17.4 million for the year ended December 31, 2014, compared to $21.5 million for the year ended December 31, 2013 and $38.4 million for the year ended December 31, 2012.

We continue to deploy various asset liability management strategies to manage our risk to interest rate fluctuations. We currently believe that short term rates will remain low for an extended period of time. We believe margin expansion over both the short and the long term will be challenging due to continued pressure on earning asset yields during this extended period of a low interest rates. Loan pricing for creditworthy borrowers is very competitive in our markets and has limited our ability to increase pricing on new and renewed loans over the last several quarters. We anticipate that this challenging competitive environment will continue in 2015.

We do believe our net interest income should increase in 2015 compared to 2014 primarily due to an increase in average earning asset volumes, primarily loans. We anticipate funding these increased earning assets by continuing to grow our core deposits, with wholesale funding limited to that required to fund the shortfall.

Rate and Volume Analysis. Net interest income increased by $17.1 million between the years ended December 31, 2014 and 2013 and by $13.0 million between the years ended December 31, 2013 and 2012. The following is an analysis of the changes in our net interest income comparing the changes attributable to rates and those attributable to volumes (in thousands):

	2014 Compared to 2013 Increase (decrease) due to			2013 Compared to 2012 Increase (decrease) due to		
	Rate	Volume	Net	Rate	Volume	Net
Interest-earning assets:						
Loans	$(3,475)	$19,101	$15,396	$(8,940)	$18,156	$9,216
Securities:						
Taxable	(1,119)	894	(277)	(1,042)	(1,385)	(2,427)
Tax-exempt	(139)	(127)	(211)	164	(363)	(199)
Federal funds sold	(101)	99	(20)	(624)	(106)	(730)
Total interest-earning assets	(4,834)	19,967	14,888	(10,442)	16,302	5,860
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest checking	(553)	267	(362)	(1,152)	280	(872)
Savings and money market	(857)	889	(84)	(2,520)	431	(2,089)
Time deposits	(847)	(617)	(1,321)	(1,610)	(550)	(2,160)
Total deposits	(2,257)	539	(1,767)	(5,282)	161	(5,121)
Securities sold under agreements to repurchase	-	(96)	(98)	(175)	(41)	(216)
Federal Home Loan Bank advances	(15)	(86)	(96)	(1,315)	(232)	(1,547)
Subordinated debt and other borrowings	(144)	(103)	(237)	(210)	(81)	(291)
Total interest-bearing liabilities	(2,416)	253	(2,198)	(6,982)	(193)	(7,175)
Net interest income	$(2,418)	$19,714	$17,086	$(3,460)	$16,495	$13,035

Changes in net interest income are attributed to either changes in average balances (volume change) or changes in average rates (rate change) for earning assets and sources of funds on which interest is received or paid. Volume change is calculated as change in volume times the previous rate while rate change is change in rate times the previous volume. The change attributed to rates and volumes (change in rate times change in volume) is considered above as a change in volume.

Provision for Loan Losses. The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in our management's evaluation, we believe to be adequate to provide coverage for the inherent losses on outstanding loans. The provision for loan losses amounted to approximately $3.6 million, $7.9 million, and $5.6 million for the years ended December 31, 2014, 2013, and 2012, respectively.

Impacting the provision for loan losses in any accounting period are several factors including the change in outstanding loan balances, the level of charge-offs and recoveries, the changes in the amount of impaired loans, changes in the risk ratings assigned to our loans, results of regulatory examinations, credit quality comparison to peer banks, the industry at large, and, ultimately, the results of our quarterly assessment of the inherent risks of our loan portfolio including past loan loss experience.

Provision expense for the year ended December 31, 2014 has decreased as compared to 2013, primarily due to a reduction in both net charge-offs and the overall amount of the allowance for loan losses. Provision expense for the year ended December 31, 2013 increased as compared to 2012, primarily due to growth in the loan portofolio, although both net charge offs and the overall amount of the allowance declined.

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 in the loan portfolio. Our allowance for loan losses as a percentage of loans decreased from 1.64% at December 31, 2013 to 1.47% at December 31, 2014. Based upon our evaluation of the loan portfolio, we believe the allowance for loan losses to be adequate to absorb our estimate of probable losses existing in the loan portfolio at December 31, 2014. 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.

The Company believes it will continue to experience reductions in its allowance to loans ratio in 2015 which will serve to reduce provision expense; however, the Company believes that provision expense will likely increase in 2015 in comparison to 2014's provision expense as the Company expects to continue to grow its loan portfolio in 2015.

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

The following is our noninterest income for the years ended December 31, 2014, 2013, and 2012 (in thousands):

	Years ended December 31, 2014	Years ended December 31, 2013	2014-2013 Percent Increase (Decrease)	Year ended December 31, 2012	2013-2012 Percent Increase (Decrease)
Noninterest income:					
Service charges on deposit accounts	$11,707	$10,558	10.88 %	$ 9,918	6.45 %
Investment services	9,383	8,038	16.73 %	6,985	15.08 %
Insurance sales commissions	4,613	4,537	1.68 %	4,461	1.70 %
Gains on mortgage loans sold, net	5,630	6,243	(9.82 %)	6,699	(6.81 %)
Investment gains (losses) on sales and impairments, net	29	(1,466)	101.98 %	2,151	(168.15 %)
Trust fees	4,601	3,747	22.79 %	3,196	17.24 %
Other noninterest income:				-	
Interchange and other consumer fees	8,259	7,517	9.87 %	6,264	20.00 %
Bank-owned life insurance	2,426	2,116	14.65 %	919	130.25 %
Loan swap fees	264	1,162	(77.28 %)	203	472.41 %
Other equity investments	690	122	465.57 %	(70)	(274.29 %)
Other noninterest income	5,000	4,529	10.40 %	2,671	69.56 %
Total other noninterest income	16,639	15,446	7.72 %	9,987	54.66 %
Total noninterest income	$52,602	$47,103	11.67 %	$ 43,397	8.54 %

The increase in service charges on deposit accounts in 2014 compared to 2013 and 2012 is primarily related to increased analysis fees on our commercial client accounts as well as a 5.5% and 12.9% increase in deposit base when compared to 2013 and 2012, respectively.

Also included in noninterest income are commissions and fees from investment services at our financial advisory unit, Pinnacle Asset Management, a division of Pinnacle Bank. At December 31, 2014, Pinnacle Asset Management was receiving commissions and fees in connection with approximately $1.70 billion in brokerage assets held with Raymond James and Associates compared to $1.56 billion at December 31, 2013. Insurance commissions were approximately $4.6 million during 2014 and $4.5 million during 2013. Additionally, at December 31, 2014, our trust department was receiving fees on approximately $765 million and $861 million of managed and custodied assets, respectively, compared to approximately $639 million and $746 million at December 31, 2013.

Gains on mortgage loans sold consists of fees from the origination and sale of mortgage loans. These mortgage fees are for loans originated principally in both the Middle Tennessee and Knoxville markets that are subsequently sold to third-party investors. All of our mortgage 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. Over the last several years, the reduced interest rates have provided home owners the opportunity to refinance their existing mortgages at low rates; however, as interest rates remain flat or begin to rise, we anticipate that our mortgage originations will continue to decrease from those levels realized in recent years. The fees from the origination and sale of mortgage loans have been netted against the commission expense associated with these originations.

During the year ended December 31, 2013, we recognized an other-than-temporary-impairment charge in the third quarter of 2013 of $1.5 million on approximately $23.4 million of bonds that were subsequently sold during the fourth quarter. During the year ended December 31, 2012, we realized approximately $2.2 million in net gains from the sale of $188.6 million of securities available-for-sale. To better manage our securities portfolio, we elected to sell these securities due to their relative underperfomance compared to the market, in order to minimize small dollar investments in our portfolio and due to other than temporarily impaired (OTTI) concerns on investment securities in certain municipalities. The gain we recognized in 2014 associated with bond sales was de minimis.

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, changes in the fair value of our other equity investments and other items. Interchange revenues increased as a result of increased debit and credit card transactions as compared to the comparable period in 2013. Other noninterest income included changes in the cash surrender value of bank-owned life insurance which was $2.4 million for the year ended December 31, 2014 compared to $2.1 million for the year ended December 31, 2013. The increase in earnings on these bank-owned life insurance policies resulted primarily from the 2013 purchase of approximately $38 million in additional bank-owned life insurance with terms similar to our existing policies. 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 are also included in other noninterest income and decreased by $898,000 when compared to the year ended December 31, 2013 as a result of reductions in client demand for these products in the current rate environment.

Also, during the year ended December 31, 2014, we recognized approximately $690,000 in gains in the market value of our other equity investments compared to $122,000 in the prior year's comparable period. These investments are equity investments in certain nonpublic private equity funds. As such, the income associated with these investments may fluctuate from period to period. With the recent acquisition of a 30% interest in Bankers Healthcare Group LLC, we believe that our other noninterest income will increase in 2015 in comparison to 2014 as the aggregate impact of the acquisition will be recognized in other noninterest income.

Other noninterest income increased by $471,000 between 2013 and 2014. Certain fees on unused lines of credit are included in other noninterest income and can be attributed to approximately $300,000 of the increase between 2013 and 2014.

Noninterest Expense. The following is our noninterest expense for the years ended December 31, 2014, 2013, and 2012 (in thousands):

	Years ended December 31, 2014	2013	2014-2013 Percent Increase (Decrease)	Year ended December 31, 2012	2013-2012 Percent Increase (Decrease)
Noninterest expense:					
Salaries and employee benefits:					
Salaries	$48,935	$46,774	4.62 %	$45,900	1.90 %
Commissions	5,397	4,642	16.26 %	4,283	8.38 %
Annual cash incentives	20,534	18,413	11.52 %	14,979	22.93 %
Employee benefits and other	13,454	12,818	4.96 %	12,895	(0.60 %)
Total salaries and employee benefits	88,320	82,647	6.86 %	78,057	5.88 %
Equipment and occupancy	24,087	21,273	13.23 %	20,420	4.18 %
Other real estate expense	664	3,113	(78.67 %)	11,544	(73.03 %)
Marketing and business development	4,128	3,639	13.44 %	3,636	0.08 %
Postage and supplies	2,392	2,250	6.31 %	2,380	(5.46 %)
Amortization of intangibles	948	1,263	(24.94 %)	2,739	(53.89 %)
Other noninterest expense:				-	
Deposit related expenses	4,619	4,631	(0.26 %)	4,856	(4.63 %)
Lending related expenses	4,132	2,926	41.22 %	3,768	(22.35 %)
Investment sales expense	354	306	15.69 %	240	27.50 %
Trust expenses	529	452	17.04 %	376	20.21 %
FHLB restructuring	-	877	(100.00 %)	2,093	(58.10 %)
Administrative and other expenses	6,127	5,884	4.13 %	8,056	(26.96 %)
Total other noninterest expense	15,761	15,076	4.54 %	19,389	(22.24 %)
Total noninterest expense	$136,300	$129,261	5.45 %	$138,165	(6.44 %)

The increase in total salaries and employee benefits expense in 2014 over 2013 and 2013 over 2012 is primarily related to annual merit increases awarded in January of each year and an increase in annual cash incentives as well as an increase in the number of employees in 2014 over 2013 and 2013 over 2012. Salaries and benefits will increase in 2015 with increased merit raises for the Company's workforce and the Company's continued recruiting effort to hire relationship bankers in our markets.

We believe that cash and equity incentives are a valuable tool in motivating an employee 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, 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 actual awards between 0% and 125% of the targeted bonus award. In 2014, our cash incentives represented 123% of targeted incentive compensation compared to 125% in 2013 and 102% in 2012.

Employee benefits and other expenses include costs associated with the Pinnacle Financial Partners 401k plan, health insurance, and payroll taxes. Also, included in employee benefits and other expense for the years ended December 31, 2014, 2013 and 2012, were approximately $5.3 million, $4.1 million and $4.4 million, respectively, of compensation

expenses related to equity-based awards, primarily for restricted shares, restricted share units or performance unit awards. We have not issued stock options since 2008.

Also included in employee benefits and other expenses are costs related to salary stock units issued to our senior executives for the year ended December 31, 2012. In connection with these awards, the executive officers received salary stock units which were settled in our common stock on a one-for-one basis. The program was terminated by the Human Resources and Compensation Committee (HRCC) of our Board of Directors effective June 30, 2012 following the redemption of the remaining preferred shares issued pursuant to the CPP. Concurrently, these senior executives' were eligible to participate in our annual cash incentive plan effective July 1, 2012. For the years ended December 31, 2013 and 2014, no costs were incurred related to the salary stock units issued to our senior executives compared to approximately $1.0 million for 2012.

Equipment and occupancy expense for the year ended December 31, 2014 was 13.23% greater than in 2013 which were 4.18% greater than in 2012. One branch was added in the Knoxville MSA in each of the years ended December 31, 2013 and 2014. Additionally, we expanded our corporate headquarters in Nashville, Tennessee in 2014. An additional branch is expected to be added in the Knoxville MSA in 2015.

Other real estate expense was $664,000 for the year ended December 31, 2014 compared to $3.1 million and $11.5 million for the years ended December 31, 2013 and 2012, respectively. Approximately $99,000, $2.8 million, and $9.5 million of the other real estate expense incurred during the years ended December 31, 2014, 2013 and 2012, respectively, were net realized losses on dispositions and holding losses due to reduced valuations of OREO properties. The remaining other real estate expense in 2014, 2013 and 2012 consisted of carrying costs to maintain or improve the properties. During 2014, we had other real estate owned dispositions of $6.4 million compared to $8.7 million in 2013 and $30.2 million in 2012.

Other real estate expense will fluctuate depending on market conditions as we maintain and market for sale various foreclosed properties. These properties could also be subject to future valuation adjustments as a result of updated appraisal information and deterioration in real estate values, thus causing additional fluctuations in our quarterly other real estate expense. Additionally, we will continue to incur expenses associated with maintenance costs and property taxes associated with these assets.

Management's strategy has been to aggressively pursue disposition of nonperforming loans and other real estate owned in order to ultimately reduce the expense associated with carrying these nonperforming assets. Our disposition strategy generally has been to negotiate sales of foreclosed properties on a property-by-property basis, although we have also utilized both traditional and online auctions. Our use of online auctions has been primarily limited to individual residential homes and lots. During 2012, management utilized a bulk sale to dispose of approximately $9.0 million in nonperforming assets which consisted of both nonperforming loans and other real estate. No bulk sales occurred during 2013 or 2014, and the bulk sale strategy is not intended to be recurring; however, our nonperforming asset disposition strategy is reviewed on an on-going basis and could change in the future.

Noninterest expense related to the amortization of intangibles relates primarily to the intangibles acquired in the Mid-America and Cavalry mergers. The core deposit intangibles are being amortized over ten years for Mid-America and were amortized over seven years for Cavalry, in each case using an accelerated method which anticipates the life of the underlying deposits to which the intangible is attributable. Amortization expense associated with the core deposit intangibles for Mid-America will approximate $691,000 to $825,000 per year for the next three years with lesser amounts for the remaining amortization period. The core deposit intangible related to Cavalry was fully amortized during the year ended December 31, 2013. Additionally, in connection with our acquisition of an insurance brokerage firm in July of 2008, we recorded a customer list intangible of $1,270,000 which is being amortized over 20 years on an accelerated basis. Amortization of the customer list intangible amounted to $91,000 for the year ended December 31, 2014 and $97,000 and $103,000 for the years ended December 31, 2013 and 2012, respectively.

Total other noninterest expenses decreased by 4.54% to $15.8 million during 2014 when compared to 2013 and by 22.2% to $15.1 million during 2013 when compared to 2012. Included in other noninterest expenses are deposit and lending related expenses, investment and trust sales expenses, FHLB restructuring expense and administrative expenses. During the second quarter of 2013, a $2.0 million allowance for off-balance sheet exposures was reversed against other noninterest expense as a result of the underlying letter of credit being funded. This $2.0 million expense reversal was partially offset by an approximately $877,000 restructuring charge related to the prepayment of $35.0 million in FHLB advances in the first quarter of 2013. Restructuring charges of $2.1 million related to the prepayment of $60.0 million in FHLB advances were incurred in 2012. Administrative and other expenses increased by 4.13% to $6.1 million during 2014 when compared to 2013. Approximately $967,000 of this increase relates to increased regulatory costs as well as a $404,000 increase in state franchise tax partly offset by an approximate $1.0 million

decrease in legal fees. Administrative and other expenses decreased by 27.0% to $2.2 million during 2013 when compared to 2012. Approximately $974,000 of this decrease relates to decreased regulatory costs as well as an approximately $788,000 decrease in legal fees. Also included in administrative and other expenses are expenses related to contributions, audit fees, and corporate insurance policies.

Our efficiency ratio (ratio of noninterest expense to the sum of net interest income and noninterest income) was 55.5% in fiscal year 2014 compared to 58.0% in fiscal year 2013 and 67.0% in fiscal year 2012. The efficiency ratio measures the amount of expense that is incurred to generate a dollar of revenue. Declining other real estate owned expense positively impacted the efficiency ratio during the year ended December 31, 2014.

Income Taxes. During the year ended December 31, 2014, Pinnacle Financial recorded income tax expense of $35.2 million. Our effective income tax rate was 33.3% for the year ended December 31, 2014, which is principally impacted by our investments in municipal securities, our real estate investment trust and bank-owned life insurance offset in part by non-deductible meals and entertainment.

Preferred Stock Dividends and Preferred Stock Discount Accretion. Net income available for common stockholders included preferred stock dividends of $1,660,000 in 2012, and the accretion on the preferred stock discount of $2,153,000, for the year ended December 31, 2012. On December 12, 2008, we received $95.0 million from the sale of preferred stock to the U.S. Treasury as a result of our participation in the CPP. The Series A preferred stock we sold the U.S. Treasury paid cumulative dividends quarterly at a rate of 5 percent per annum. Pinnacle Financial redeemed the preferred shares issued to the Treasury under the CPP in two payments. During 2011, Pinnacle Financial redeemed 23,750 of the preferred shares for approximately $23.9 million. As a result of the partial redemption, Pinnacle Financial recognized approximately $719,000 of accelerated accretion of the remaining preferred stock discount. During 2012, Pinnacle Financial completed the redemption of the remaining 71,250 preferred shares outstanding to the Treasury for approximately $71.6 million. Concurrently, Pinnacle Financial accelerated the accretion of the remaining preferred stock discount of approximately $1.7 million during 2012.

Additionally, Pinnacle Financial issued warrants to purchase 534,910 shares of common stock to the U.S. Treasury as a condition to its participation in the CPP. The warrants had an exercise price of $26.64 each, were immediately exercisable and expired 10 years from the date of issuance. On June 16, 2009, Pinnacle Financial completed the sale of 8,855,000 shares of its common stock in a public offering, resulting in net proceeds to Pinnacle Financial of approximately $109 million. As a result, and pursuant to the terms of the warrants, the number of shares issuable upon exercise of the warrants was reduced by 50%, or 267,455 shares. During the third quarter of 2012, Pinnacle Financial repurchased all of the remaining outstanding warrants for $755,000.

Financial Condition

Our consolidated balance sheet at December 31, 2014 reflects an increase of $445.5 million in outstanding loans to $4.590 billion and $249.1 million in total deposits to $4.783 billion from December 31, 2013. Total assets were $6.018 billion at December 31, 2014 as compared to $5.564 billion at December 31, 2013.

Loans. The composition of loans at December 31 for each of the past five years and the percentage (%) of each segment to total loans are summarized as follows (dollars in thousands):

	2014		2013		2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial real estate - Mortgage	$1,544,091	33.6 %	$1,383,435	33.4 %	$1,178,196	31.7 %	$1,110,962	33.8 %	$1,094,615	34.1 %
Consumer real estate - Mortgage	721,158	15.7 %	695,616	16.8 %	679,926	18.3 %	695,745	21.1 %	705,487	22.0 %
Construction and land	322,466	7.0 %	316,191	7.6 %	313,552	8.4 %	274,248	8.3 %	331,261	10.3 %

development														
Commercial and industrial	1,784,729	38.9	%	1,605,547	38.7	%	1,446,578	39.0	%	1,145,735	34.8	%	1,012,091	31.5	%
Consumer and other	217,583	4.7	%	143,704	3.5	%	93,910	2.6	%	64,661	2.0	%	68,986	2.1	%
Total loans	$4,590,027	100.0	%	$4,144,493	100.0	%	$3,712,162	100.0	%	$3,291,351	100.0	%	$3,212,440	100.0	%

We have experienced growth in all segments of our portfolio. Significant growth occurred in the commercial real estate – mortgage segment which includes owner-occupied commercial real estate loans. 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, however, the real estate is used as collateral. At December 31, 2014, approximately 49.5% of the outstanding principal balance of our commercial real estate mortgage loans was secured by owner-occupied properties. Additionally, commercial and industrial loans increased by 11.2% during the year as a result of businesses returning to a more normalized post recession state of operations.

Consumer real estate mortgages consist of first mortgage real estate loans, junior liens and home equity lines of credit. In total, we hold the first mortgage on $565.2 million of the mortgages within this portfolio. The remaining $155.9 million represent junior liens, or "second mortgages". We had net charge-offs of $684,000 and $635,000 related to consumer loan second mortgages during 2014 and 2013, respectively. At December 31, 2014, we had $73,000 of second mortgage consumer loans classified as nonperforming assets compared to $362,000 at December 31, 2013. In addition, approximately $17,000 and $156,000 of these second mortgages were past due at December 31, 2014 and 2013, respectively. Generally, for our second mortgage properties, should it become apparent to us that the first mortgage is habitually past due, classified as nonperforming or has other credit weaknesses, we will review our second mortgage to determine if the second mortgage should be considered for impairment. Typically, the second mortgage loan will be placed on nonperforming status or charged off if it appears the borrower's credit status has deteriorated. For borrowers where the first mortgage loan is held by another financial institution, we review credit histories of our home equity line of credit borrowers annually to determine if the borrower's credit score has decreased as a result of the borrower's inability to maintain their credit obligations in a satisfactory manner.

The following table classifies our fixed and variable rate loans at December 31, 2014 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 December 31, 2014						
	Fixed Rates	Variable Rates(*)	Totals	At December 31, 2014		At December 31, 2013	
Based on contractual maturity:							
Due within one year	$213,150	$772,269	$985,419	21.5	%	24.8	%
Due in one year to five years	1,137,628	1,033,726	2,171,354	47.3	%	42.2	%
Due after five years	589,799	843,454	1,433,253	31.2	%	32.9	%
Totals	$1,940,577	$2,649,449	$4,590,026	100.0	%	100.0	%
Based on contractual repricing dates:							
Daily floating rate	$-	$1,398,545	$1,398,545	30.5	%	30.6	%
Due within one year	213,150	470,413	683,563	14.9	%	16.8	%
Due in one year to five years	1,137,628	491,735	1,629,363	35.5	%	32.3	%
Due after five years	589,799	288,756	878,555	19.1	%	20.3	%
Totals	$1,940,577	$2,649,449	$4,590,026	100.0	%	100.0	%

(*)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 $1.1 billion of loans which at December 31, 2014 were priced at their contractual floors with a weighted average rate of 4.27%. The weighted average contractual rate on these loans is 3.54%. As a result, interest income on these loans will not change until the contractual rate on the underlying loan exceeds the interest rate floor.

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

Loan Origination Risk Management. We attempt to maintain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies

and non-performing loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Underwriting standards are designed to promote relationship banking rather than transactional banking. Our management examines current and projected cash flows to determine the expected ability of a borrower to repay its obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected, and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable, inventory or equipment and may incorporate a personal guarantee of business principals; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be adversely affected by conditions in the real estate markets or in the general economy. As detailed in the discussion of real estate loans below, the properties securing our commercial real estate portfolio generally are diverse in terms of type and industry. We believe this diversity helps reduce our exposure to adverse economic events that affect any single industry or type of real estate product. Management monitors and evaluates commercial real estate loans based on cash flow, collateral, geography and risk grade criteria. We also utilize third-party experts to provide insight and guidance about economic conditions and trends affecting market areas we serve.

Given the positive economic outlook for the Nashville MSA and the Knoxville MSAs, we continue to make limited levels of loans for sound commercial construction and development projects. Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the completed project, which may be inaccurate. Construction loans involve the disbursement of funds during construction with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from us until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans because their ultimate repayment is sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

We also originate consumer loans, including consumer real-estate loans, where we typically use a computer-based credit scoring analysis to supplement the underwriting process. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed, jointly by line and staff personnel. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, seeks to minimize risk. Additionally, trend and outlook reports are reviewed by management on a regular basis. Underwriting standards for home equity loans are heavily influenced by statutory requirements.

We also maintain an independent loan review department that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management and the audit committee. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as our policies and procedures.

Lending Concentrations. We periodically analyze our commercial loan portfolio to determine if a concentration of credit risk exists to any one or more industries. We use broadly accepted industry classification systems in order to classify borrowers into various industry classifications. We have a credit exposure (loans outstanding plus unfunded commitments) exceeding 25% of Pinnacle Bank's total risk-based capital to borrowers in the following industries at December 31, 2014 and 2013 (in thousands):

	December 31, 2014				Total Exposure at December 31, 2013
	Outstanding Principal Balances	Unfunded Commitments	Total Exposure	Percent of Total Risk-Based Capital	
Lessors of nonresidential buildings	$515,145	$ 57,475	$572,620	78.3 %	$515,240
Lessors of residential buildings	292,721	42,678	335,399	44.5 %	270,773

Performing Loans in Past Due Status. The following table is a summary of our accruing loans that were past due between 30 and 90 days and greater than 90 days as of December 31, 2014 and 2013 (dollars in thousands):

	December 31,	
Accruing loans past due 30 to 90 days:	2014	2013
Commercial real estate – mortgage	$2,232	$2,561
Consumer real estate – mortgage	2,391	2,215
Construction and land development	421	4,839
Commercial and industrial	3,431	1,847
Consumer and other	9,532	1,488
Total accruing loans past due 30 to 90 days	$18,007	$12,950
Accruing loans past due 90 days or more:		
Commercial real estate – mortgage	$-	$2,232
Consumer real estate – mortgage	146	-
Construction and land development	-	-
Commercial and industrial	5	825
Consumer and other	172	289
Total accruing loans past due 90 days or more	$323	$3,346
Ratios:		
Accruing loans past due 30 to 90 days as a percentage of total loans	0.39 %	0.31 %
Accruing loans past due 90 days or more as a percentage of total loans	0.01 %	0.08 %
Total accruing loans in past due status as a percentage of total loans	0.40 %	0.39 %

Potential Problem Loans. Potential problem loans amounted to approximately $83.0 million, or 1.8% of total loans outstanding at December 31, 2014, compared to $65.0 million, or 1.5% of total loans outstanding at December 31, 2013. Potential problem loans, which are not included in nonperforming 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 or worse, but not considered nonperforming loans. Approximately $3.3 million of potential problem loans were past due at least 30 but less than 90 days as of December 31, 2014.

Non-Performing Assets and Troubled Debt Restructurings. At December 31, 2014, we had $27.9 million in nonperforming assets compared to $33.4 million at December 31, 2013. Included in nonperforming assets were $16.7 million in nonperforming loans and $11.2 million in other real estate owned at December 31, 2014 and $18.2 million in nonperforming loans and $15.2 million in other real estate owned at December 31, 2013. At December 31, 2014 and 2013, there were $8.4 million and $19.6 million, respectively, of troubled debt restructurings that were performing as of the restructured date and remain in a performing status.

All nonaccruing loans are reassigned to a special assets officer who was not responsible for originating the loan. The special assets officer is responsible for developing an action plan designed to minimize our future losses. Typically, these special assets officers review our loan files, interview prior officers assigned to the relationship, meet with borrowers, inspect collateral, reappraise collateral and/or consult with legal counsel. The special assets officer then recommends an action plan to a committee of senior associates including lenders and workout specialists, which could include foreclosing on collateral, restructuring the loan, issuing demand letters or other actions.

We discontinue the accrual of interest income when (1) there is a significant deterioration in the financial condition of the borrower and full repayment of principal and interest is not expected or (2) the principal or interest is more than 90 days past due, unless the loan is both well-secured and in the process of collection. During 2014, we recognized

$256,000 of interest income from nonperforming loans, reflecting cash payments received from the borrower and our belief, at the time of payment, that the underlying collateral supported the carrying amount of the loans. For the years ended December 31, 2013 and 2012, we recognized no interest income from loans that were classified as nonperforming from cash payments received from those borrowers.

Due to the weakening credit status of a borrower, we may elect to formally restructure certain loans to facilitate a repayment plan that seeks to minimize the potential losses, if any, that we might incur. These loans are considered troubled debt restructurings. If on nonaccruing status as of the date of restructuring, any restructured loan is included in the nonperforming loan balancesas discussed above and is classified as an impaired loan. Loans that have been restructured that are on accrual status as of the restructure date are not included in nonperforming loans; however, such loans are still considered impaired.

At December 31, 2014, we owned $11.2 million in other real estate which we had acquired, usually through foreclosure, from borrowers compared to $15.2 million at December 31, 2013; the majority of this real estate is located within our principal markets. We categorize other real estate owned into three types: developed lots, undeveloped land, and other. Included in the "other" category are primarily condominiums, office buildings and residential homes that are not new construction. The following table shows the amounts of our other real estate owned in such categories (in thousands):

	December 31, 2014	December 31, 2013
Developed lots	$275	$1,296
Undeveloped land	9,240	11,564
Other	1,671	2,366
	$11,186	$15,226

The following table is a summary of our nonperforming assets and troubled debt restructurings at December 31, 2014 and 2013 (in thousands):

	At December 31, 2013	Payments, Sales and Reductions [2]	Foreclosures [3]	Inflows[4]	At December 31, 2014
Nonperforming assets:					
Nonperforming loans [1]:					
Commercial real estate – mortgage	$ 9,017	$ (5,627)	$ (1,572)	$ 2,495	$ 4,313
Consumer real estate – mortgage	5,289	(5,991)	(815)	5,975	4,458
Construction and land development	1,070	(803)	-	4,906	5,173
Commercial and industrial	2,565	(4,535)	-	3,579	1,609
Consumer and other	242	(3,958)	(2,263)	7,132	1,153
Total nonperforming loans [1]	18,183	(20,914)	(4,650)	24,087	16,706
Other real estate owned	15,226	(8,690)	4,650	-	11,186
Total nonperforming assets	33,409	(29,604)	-	24,087	27,892
Troubled debt restructurings:					
Commercial real estate – mortgage	13,453	(13,453)	-	-	-
Consumer real estate – mortgage	3,984	(107)	-	49	3,926
Construction and land development	113	(113)	-	436	436
Commercial and industrial	1,820	(1,675)	-	3,628	3,773
Consumer and other	276	(14)	-	13	275
Total troubled debt restructurings	19,646	(15,362)	-	4,126	8,410
Total nonperforming assets and troubled debt restructurings	$ 53,055	$ (44,966)	$ -	$ 28,213	$ 36,302
Ratios:					
Nonperforming loans to total loans	0.44 %				0.36 %
Nonperforming assets to total loans plus other real estate owned	0.88 %				0.61 %
Nonperforming assets plus troubled debt restructurings to total loans and other real estate owned	1.28 %				0.79 %
Nonperforming assets, potential problem loans and troubled debt restructurings to Pinnacle Bank Tier I	19.02 %				18.09 %

capital and allowance for loan losses		
Classified Asset Ratio (Pinnacle Bank)(5)	18.50 %	18.10 %
Allowance for loan loss coverage ratio	373.8 %	403.2 %

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(1) Approximately $10.2 million and $10.8 million as of December 31, 2014 and 2013, respectively, of nonperforming loans included above are currently paying pursuant to their contractual terms.

(2) Payments, sales and reductions in nonperforming loans are primarily attributable to payments we have collected from borrowers, charge-offs of recorded balances and nonaccrual loans that have been returned to accruing status during the year ended December 31, 2014. Payments, sales and reductions in other real estate owned represent either the sale, disposition or valuation adjustment on properties which had previously been foreclosed upon or acquired by deed in lieu of foreclosure. Payments, sales and reductions in troubled debt restructurings are those loans which were previously restructured whereby the borrower has reduced the outstanding balance of the loan or re-defaulted on the terms of the loan and therefore been charged-off.

(3) Foreclosures in nonperforming loans and troubled debt restructurings are representative of transfers of balances to OREO during the year ended December 31, 2014.

(4) Inflows in nonperforming loans are attributable to loans where we have discontinued the accrual of interest at some point during the year ended December 31, 2014. Increases in OREO represent the value of properties that have been foreclosed upon or acquired by deed in lieu of foreclosure during 2014. Increases in troubled debt restructurings are those loans where we have granted the borrower a concession due to the deteriorating financial condition of the borrower during 2014. These concessions can be in the form of a reduced interest rate, extended maturity date or other matters where we were unable to receive fair compensation for the permitted concession.

(5) Classified assets as a percentage of Tier 1 capital plus allowance for loan losses.

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 December 31, 2014 and December 31, 2013, our allowance for loan losses was $67.4 million and $68.0 million, respectively, which our management deemed to be adequate at each of the respective dates. The decrease in the allowance for loan losses in 2014 as compared to 2013 is primarily the result of improving overall credit metrics within our portfolio, including the reduction in net charge-offs and an increase in our coverage ratio. Our allowance for loan loss as a percentage of total loans has decreased from 1.64% at December 31, 2013 to 1.47% at December 31, 2014. The judgments and estimates associated with our allowance determination are described under "Critical Accounting Estimates" above.

The following table sets forth, based on management's best estimate, the allocation of the allowance to types of loans as well as the unallocated portion as of December 31 for each of the past five years and the percentage of loans in each category to total loans (in thousands):

	December 31,														
	2014			2013			2012			2010			2009		
	Amount	Percent		Amount	Percent		Amount	Percent		Amount	Percent		Amount	Percent	
Commercial real estate – Mortgage	$22,202	33.64	%	$21,372	33.40	%	$19,634	31.70	%	$23,397	33.80	%	$19,252	34.10	%
Consumer real estate – Mortgage	5,424	15.71	%	8,355	16.80	%	8,762	18.30	%	10,302	21.10	%	9,898	22.00	%
Construction and land development	5,724	7.03	%	7,235	7.60	%	9,164	8.50	%	12,040	8.30	%	19,122	10.30	%
Commercial and industrial	29,167	38.88	%	25,134	38.70	%	24,738	39.00	%	20,789	34.80	%	21,426	31.50	%
Consumer and other	1,570	4.74	%	1,632	3.50	%	1,094	2.50	%	1,125	2.00	%	1,874	2.10	%
Unallocated	3,272	NA		4,242	NA		6,025	NA		6,322	NA		11,003	NA	
Total allowance for loan losses	$67,359	100.00	%	$67,970	100.00	%	$69,417	100.00	%	$73,975	100.00	%	$82,575	100.00	%

The decrease in the overall allowance for loan losses is due to the improvement of our loan portfolio and the reduction of nonperforming loans and net charge-offs, which is largely influenced by the overall improvement in the economies in our market areas. The allocation by category is determined based on the assigned risk rating, if applicable, and environmental factors applicable to each category of loans. For impaired loans, those loans are reviewed for a specific allowance allocation. As we have worked to rehabilitate impaired loans and total impaired loans has decreased, the specific allocations for impaired loans have decreased. Specific valuation allowances related to impaired loans were approximately $2.9 million at December 31, 2014 compared to $4.0 million at December 31, 2013. The decrease in the specific allocation for impaired loans between 2013 and 2014 was due to many factors, including the resolution of a number of troubled assets. The unallocated category is intended to allow for losses that are inherent in our portfolio that we have not yet identified or that are attributable to a specific risk factor and for modeling imprecision. Additional information on the allocation of the allowance between performing and impaired loans is provided in Note 6 to the "Notes to the Consolidated Financial Statements."

The following is a summary of changes in the allowance for loan losses for each of the years in the five year period ended December 31, 2014 and the ratio of the allowance for loan losses to total loans as of the end of each period (in thousands):

	2014	2013	2012	2011	2010
Balance at beginning of period	$67,970	$69,417	$73,975	$82,575	$91,959
Provision for loan losses	3,635	7,857	5,569	21,798	53,695
Charged-off loans:				-	-
Commercial real estate - Mortgage	(875)	(4,123)	(4,667)	(3,044)	(9,041)
Consumer real estate - Mortgage	(1,621)	(2,250)	(6,731)	(5,076)	(6,769)
Construction and land development	(301)	(1,351)	(2,530)	(10,157)	(27,526)
Commercial and industrial	(3,095)	(8,159)	(4,612)	(15,360)	(23,555)
Consumer and other	(1,811)	(1,369)	(1,117)	(1,213)	(652)
Total charged-off loans	(7,703)	(17,252)	(19,657)	(34,850)	(67,543)
Recoveries of previously charged-off loans:					
Commercial real estate - Mortgage	538	500	285	116	343
Consumer real estate - Mortgage	671	1,209	818	495	377
Construction and land development	277	1,464	1,155	1,530	2,618
Commercial and industrial	1,484	4,531	7,175	2,167	874
Consumer and other loans	487	244	97	144	252
Total recoveries of previously charged-off loans	3,457	7,948	9,530	4,452	4,464
Net charge-offs	(4,246)	(9,304)	(10,127)	(30,398)	(63,079)
Balance at end of period	$67,359	$67,970	$69,417	$73,975	$82,575
Ratio of allowance for loan losses to total loans outstanding at end of period	1.47 %	1.64 %	1.87 %	2.25 %	2.57 %
Ratio of net charge-offs to average loans outstanding for the period	0.10 %	0.24 %	0.29 %	0.92 %	1.96 %

As noted in our critical accounting policies, management assesses the adequacy of the allowance at 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, historical loss experience, 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.

Investments. Our investment portfolio, consisting primarily of Federal agency bonds, state and municipal securities and mortgage-backed securities, amounted to $770.7 million and $733.3 million at December 31, 2014 and 2013, respectively. Our investment to asset ratio has decreased from 13.2% at December 31, 2013 to 12.8% at December 31, 2014. Over the last several years we have reduced the ratio of investments to total assets and the absolute level of investment securities on our balance sheet as we have allocated more funding to loans and reduced our reliance on revenues from our investment securities. Given we believe that interest rates will increase over the next few years, we have elected to reduce the ratio of our investment securities portfolio to total assets in an effort to reduce the interest rate risks from this asset class which is dominated by fixed rate securities. By doing so, we are also reducing the impact of rising rates on our accumulated comprehensive income (loss) accounts as the concurrent devaluation of our investment securities portfolio would impact our stockholders' equity negatively during a rising rate environment. As rates increase and the aforementioned interest rate risks reduce, we may elect to allocate more funding to our

investment securities portfolio. Our investment portfolio serves many purposes including serving as a stable source of income, collateral for public funds and as a potential liquidity source.

A summary of certain aspects of our investment portfolio at December 31, 2014 and 2013 follows:

	December 31,	
	2014	2013
Weighted average life	4.55 years	5.22 years
Effective duration	2.81%	4.61 %
Weighted average coupon	3.31%	3.50 %
Tax equivalent yield	2.81%	3.15 %

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The following table shows the carrying value of investment securities according to contractual maturity classifications of (1) one year or less, (2) after one year through five years, (3) after five years through ten years, and (4) after ten years. Actual maturities may differ from contractual maturities of mortgage-backed securities because the mortgages underlying the securities may be called or prepaid with or without penalty. Therefore, these securities are not included in the maturity categories but are listed below these categories as of December 31, 2014 and 2013 (in thousands):

	U.S. Treasury securities		U.S. government agency securities		State and Municipal securities		Corporate securities		Totals	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
At December 31, 2014:										
Securities available-for-sale:										
Due in one year or less	$ -	0.0 %	$ 3,002	0.34 %	$ 4,393	4.65 %	$ 505	0.96 %	$ 7,900	2.77 %
Due in one year to five years	-	0.0 %	7,667	0.90 %	12,916	5.34 %	10,159	4.54 %	30,742	0.95 %
Due in five years to ten years	-	0.0 %	67,100	2.27 %	89,367	5.90 %	500	1.23 %	156,967	4.34 %
Due after ten years	-	0.0 %	35,687	2.76 %	31,902	5.06 %	-	- %	67,589	0.95 %
	$ -	0.0 %	$ 113,456	2.28 %	$ 138,578	5.62 %	$ 11,164	4.23 %	263,198	4.12 %
Mortgage-backed securities									455,839	2.31 %
Asset-backed securities									13,018	0.60 %
									$ 732,055	1.48 %
Securities held-to-maturity:										
Due in one year or less	$ -	0.0 %	$ -	0.0 %	$ 1,947	1.38 %	$ -	0.0 %	$ 1,947	0.90 %
Due in one year to five years	-	0.0 %	-	0.0 %	11,775	0.44 %	-	0.0 %	11,775	0.29 %
Due in five years to ten years	-	0.0 %	-	0.0 %	15,973	2.62 %	-	0.0 %	15,973	1.71 %
Due after ten years	-	0.0 %	-	0.0 %	9,094	3.80 %	-	0.0 %	9,094	2.60 %
	$ -	0.0 %	$ -	0.0 %	$ 38,789	2.59 %	$ -	0.0 %	$ 38,789	1.71 %
Mortgage-backed securities									-	0.0 %
Asset-backed securities									-	0.0 %
Total held-for-sale securities									$ 38,789	1.71 %

	U.S. Treasury securities		U.S. government agency securities		State and Municipal securities		Corporate securities		Totals	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
At December 31, 2013:										
Securities available-for-sale:										
Due in one year or less	$ -	0.0 %	$ 500	0.26 %	$ 3,015	5.90 %	$ -	0.0 %	$ 3,515	5.10 %
Due in one year to five years	-	0.0 %	10,325	0.59 %	16,283	5.09 %	1,635	0.81 %	28,243	3.20 %
Due in five years to ten years	-	0.0 %	41,799	2.18 %	76,893	5.89 %	9,594	4.82 %	128,286	4.60 %
Due after ten years	-	0.0 %	51,249	2.66 %	52,220	5.46 %	-	0.0 %	103,469	4.07 %
	$ -	0.0 %	$ 103,873	1.58 %	$ 148,411	5.39 %	$ 11,229	4.24 %	263,513	4.25 %
Mortgage-backed securities									412,936	2.70 %
Asset-backed securities									17,007	1.42 %
									$ 693,456	3.26 %
Securities held-to-maturity:										
Due in one year or less	$ -	0.0 %	$ -	0.0 %	$ 317	1.64 %	$ -	0.0 %	$ 317	1.64 %
Due in one year to five years	-	0.0 %	-	0.0 %	12,097	1.65 %	-	0.0 %	12,097	1.65 %

Due in five years to ten years	-	0.0 %	-	0.0 %	15,105	2.39 %	-	0.0 %	15,105	2.39 %
Due after ten years	-	0.0 %	-	0.0 %	12,277	3.82 %	-	0.0 %	12,277	3.82 %
	$ -	0.0 %	$ -	0.0 %	$ 39,796	2.70 %	$ -	0.0 %	$ 39,796	2.70 %
Mortgage-backed securities									-	0.0 %
Asset-backed securities									-	0.0 %
Total held-for-sale securities									$ 39,796	2.70 %

We computed yields using coupon interest, adding discount accretion or subtracting premium amortization, as appropriate, on a ratable basis over the life of each security. We computed the weighted average yield for each maturity range using the acquisition price of each security in that range. At December 31, 2014 and 2013, approximately 85% and 83%, respectively, of our state and municipal securities were generally callable by the issuer.
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During 2013, approximately $40.0 million of available-for-sale securities were transferred to the held-to-maturity portfolio. The transfers of debt securities into the held-to-maturity category from the available-for-sale category were made at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer was retained in other comprehensive income and in the carrying value of the held-to-maturity securities. Such amounts will be amortized to interest income over the remaining life of the securities.

Deposits and Other Borrowings. We had approximately $4.783 billion of deposits at December 31, 2014 compared to $4.533 billion at December 31, 2013. 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 of our securities under agreements to repurchase the security the following day. These agreements (which are typically associated with comprehensive treasury management programs for our commercial clients and provide the client with short-term returns for their excess funds) amounted to $94.0 million at December 31, 2014 and $70.5 million at December 31, 2013. Additionally, at December 31, 2014, we had borrowed $195.5 million in advances from the Federal Home Loan Bank of Cincinnati (FHLB Cincinnati) compared to $90.6 million at December 31, 2013.

Generally, we have classified our funding as core funding or non-core funding. Core funding consists of all deposits other than time deposits issued in denominations of $250,000 or greater. All other funding is deemed to be non-core. Non-core is further segmented between relationship based non-core funding and wholesale funding. The following table represents the balances of our deposits and other funding and the percentage of each type to the total at December 31, 2014 and 2013 (in thousands):

	December 31, 2014	Percent	December 31, 2013	Percent
Core funding:				
Noninterest-bearing deposit accounts	$1,321,053	25.56 %	$1,167,763	24.35 %
Interest-bearing demand accounts	989,915	19.15 %	870,662	18.16 %
Savings and money market accounts	1,751,698	33.89 %	1,655,087	34.52 %
Time deposit accounts less than $250,000	318,511	6.16 %	408,520	8.52 %
Total core funding	4,381,177	84.77 %	4,102,032	85.54 %
Non-core funding:				
Relationship based non-core funding:				
Reciprocating NOW deposits (1)	15,535	0.30 %	13,633	0.28 %
Reciprocating money market accounts (1)	273,259	5.29 %	309,276	6.45 %
Reciprocating time deposits (1)	43,355	0.84 %	32,689	0.68 %
Other time deposits	69,278	1.34 %	77,838	1.62 %
Securities sold under agreements to repurchase	93,995	1.82 %	70,465	1.47 %
Total relationship based non-core funding	495,422	9.58 %	503,901	10.51 %
Wholesale funding:				
Public funds	-	0.00 %	-	
Brokered deposits	-	0.00 %	-	0.00 %
Federal Home Loan Bank advances	195,476	3.78 %	90,637	1.89 %
Holding Company loan	13,682	0.26 %	16,182	0.34 %
Subordinated debt	82,476	1.60 %	82,476	1.72 %
Total wholesale funding	291,634	5.64 %	189,295	3.95 %
Total non-core funding	787,056	15.23 %	693,196	14.46 %
Totals	$5,168,233	100.00%	$4,795,228	100.00%

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

network.

Our funding policies limit the amount of non-core funding we can utilize. Periodically, we may exceed our policy limitations, at which time management will develop plans to bring our core funding ratios back within compliance. As noted in the table above, our core funding as a percentage of total funding decreased from 85.5% at December 31, 2013 to 84.8% at December 31, 2014. Continuing to grow our core deposit base remains 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.

The amount of time deposits as of December 31, 2014 amounted to $431.1 million. The following table shows our time deposits in denominations of under $100,000 and those of denominations of $100,000 and greater by category based on time remaining until maturity of (1) three months or less, (2) over three but less than six months, (3) over six but less than twelve months and (4) over twelve months and the weighted average rate for each category (in thousands):

	Balances	Weighted Avg. Rate	
Denominations less than $100,000			
Three months or less	$39,948	0.34	%
Over three but less than six months	35,247	0.38	%
Over six but less than twelve months	39,583	0.42	%
Over twelve months	34,233	0.84	%
	149,011	0.49	%
Denominations $100,000 and greater			
Three months or less	75,700	0.33	%
Over three but less than six months	83,197	0.41	%
Over six but less than twelve months	64,783	0.53	%
Over twelve months	58,453	1.02	%
	282,133	0.54	%
Totals	$431,144	0.52	%

Subordinated debt and other borrowings. Pinnacle Bank is a member of the FHLB Cincinnati. As a result, Pinnacle Bank receives advances from the FHLB, 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, Pinnacle Bank has pledged certain qualifying residential mortgage loans and, pursuant to a blanket lien, all qualifying commercial mortgage loans as collateral. At December 31, 2014, Pinnacle Bank had received advances from the FHLB totaling $195.4 million. Additionally, Pinnacle Financial recognized a discount on FHLB advances in conjunction with previous acquisitions. The remaining discount was $91,000 at December 31, 2014. At December 31, 2013, the scheduled maturities of these advances and interest rates are as follows (in thousands):

	Scheduled Maturities	Weighted Average Interest Rates[1]	
2015	$ 180,000	0.16	%
2016	15,000	0.18	%
2017	-	0.00	%
2018	8	2.00	%
2019	-	0.00	%
Thereafter	378	2.43	%
	$ 195,386		
Weighted average interest rate		0.17	%

(1) Some FHLB advances include variable interest rates and could increase in the future. The table reflects rates in effect as of December 31, 2014.

As part of our asset liability policy, we seek to manage our interest rate risk and we utilize various strategies in order to achieve our goals. During 2013, Pinnacle Bank restructured approximately $35.0 million of FHLB advances to reduce our ongoing funding costs. This restructuring was undertaken because the weighted average interest rate on the FHLB advances was 1.79%, significantly higher than the rate for replacement funding. Other than the interest

rates, the terms of the replacement advances are similar to those of the advances restructured. This restructuring resulted in a one-time charge of $877,000 during the first quarter of 2013. A similar restructuring was undertaken in 2012. Approximately $60.0 million of FHLB advances were restructured to reduce the rate from 1.91% to a lower rate. A charge of $2.1 million was incurred related to this restructuring. We did not restructure any FHLB advances during 2014 and do not currently have intentions to restructure the remaining FHLB advances.

We have four wholly-owned subsidiaries that are statutory business trusts (the Trusts). We are the sole sponsor of the Trusts and acquired each Trust's common securities. The Trusts were created for the exclusive purpose of issuing 30-year capital trust preferred securities and used the proceeds to acquire junior subordinated debentures (Subordinated Debentures) issued by Pinnacle Financial. The sole assets of the Trusts are the Subordinated Debentures. At December 31, 2014, our $2,476,000 investment in the Trusts is included in other investments in the accompanying consolidated balance sheets and our $82,476,000 obligation is reflected as subordinated debt.

	Date Established	Maturity	Common Securities	Subordinated Debentures	Floating Interest Rate	Interest Rate at December 31, 2014
Trust I	December 29, 2003	December 30, 2033	$ 310,000	$ 10,000,000	Libor + 2.80%	3.04 %
Trust II	September 15, 2005	September 30, 2035	619,000	20,000,000	Libor + 1.40%	1.66 %
Trust III	September 7, 2006	September 30, 2036	619,000	20,000,000	Libor + 1.65%	1.91 %
Trust IV	October 31, 2007	September 30, 2037	928,000	30,000,000	Libor + 2.85%	3.09 %

The securities bear a floating interest rate based on a spread over 3-month LIBOR which is set each quarter. Distributions are payable quarterly. The Trust Preferred Securities are subject to mandatory redemption upon repayment of the Subordinated Debentures at their stated maturity date or their earlier redemption in an amount equal to their liquidation amount plus accumulated and unpaid distributions to the date of redemption. We guarantee the payment of distributions and payments for redemption or liquidation of the Trust Preferred Securities to the extent of funds held by the Trusts. Pinnacle Financial's obligations under the Subordinated Debentures together with the guarantee and other back-up obligations, in the aggregate, constitute a full and unconditional guarantee by Pinnacle Financial of the obligations of the Trusts under the Trust Preferred Securities.

The Subordinated Debentures are unsecured; bear interest at a rate equal to the rates paid by the Trusts on the Trust Preferred Securities and mature on the same dates as those noted above for the Trust Preferred Securities. Interest is payable quarterly. We may defer the payment of interest at any time for a period not exceeding 20 consecutive quarters provided that the deferral period does not extend past the stated maturity. During any such deferral period, distributions on the Trust Preferred Securities will also be deferred and our ability to pay dividends on our common shares will be restricted.

The Trust Preferred Securities may be redeemed prior to maturity at our option. The Trust Preferred Securities may also be redeemed at any time in whole (but not in part) in the event of unfavorable changes in laws or regulations that result in (1) the Trust becoming subject to federal income tax on income received on the Subordinated Debentures, (2) interest payable by the parent company on the Subordinated Debentures becoming non-deductible for federal tax purposes, (3) the requirement for the Trust to register under the Investment Company Act of 1940, as amended, or (4) loss of the ability to treat the Trust Preferred Securities as "Tier I capital" under the Federal Reserve capital adequacy guidelines.

On June 15, 2012, Pinnacle Financial entered into a loan agreement with an unaffiliated bank for $25 million. Pinnacle Financial's borrowings under the Loan Agreement bear interest at a LIBOR rate generally defined as the sum of (i) the average of the offered rates of interest quoted in the London Inter-Bank Eurodollar Market for U.S. Dollar deposits with prime banks (as published by Reuters or other commercially available source) for three months (all as selected by the Company), and (ii) an applicable margin. The applicable margin under the Loan Agreement ranges from 2.25% (225 basis points) to 3.00% (300 basis points) depending on the total aggregate principal amount outstanding under the loan agreement. At December 31, 2014, the rate was 2.6875%.

We began making quarterly principal payments of $625,000 on September 30, 2012, and the loan matures on June 15, 2017. We are permitted to prepay all or a portion of the principal amount outstanding under the Loan Agreement without penalty (in minimum aggregate amounts of $100,000) at any time so long as no event of default or unmatured event of default has occurred and is continuing. At December 31, 2014, the amount outstanding on this obligation was $13.7 million.

On October 2, 2013, the Loan Agreement was amended to permit Pinnacle Financial to pay dividends on its capital stock so long as no event of default was then existing or would be caused by the payment of such dividends.

On February 4, 2015, Pinnacle Bank entered into a loan agreement with an unaffiliated bank for $40 million. Pinnacle Bank's borrowings under the loan agreement bear interest at rates at the greater of (i) zero percent (0%) and (ii) the one-month LIBOR rate quoted by the lender (as published by Reuters), plus in each case an applicable margin. The applicable margin under the loan agreement ranges from 1.65% (165 basis points) to 1.95% (195 basis points) depending on the total aggregate principal amount outstanding under the loan agreement. The initial applicable margin is 1.95% (195 basis points).

Capital Resources. At December 31, 2014 and 2013, our stockholders' equity amounted to $802.7 million and $723.7 million, respectively. Substantially all of the increase in stockholders' equity resulted from net income from operations.

On December 12, 2008, we issued 95,000 shares of preferred stock to the U.S. Treasury for $95 million pursuant to the CPP. Additionally, we issued 534,910 common stock warrants to the U.S. Treasury as a condition to our participation in the CPP. Proceeds from this sale of preferred stock were contributed to Pinnacle Bank for general corporate purposes, including its lending activities. On June 16, 2009, we completed the sale of 8,855,000 shares of our common stock in a public offering, resulting in net proceeds to Pinnacle Financial of approximately $109.0 million. As a result, and pursuant to the terms of the warrant issued to the U.S. Treasury in connection with our participation in the CPP, the number of shares issuable upon exercise of the warrant issued to the U.S. Treasury in connection with the CPP was reduced by 50%, or 267,455 shares.

During the fourth quarter of 2011, Pinnacle Financial repurchased 25% of the preferred shares originally issued to the U.S. Treasury under the CPP for approximately $23.9 million. During the second quarter of 2012, Pinnacle Financial redeemed the remaining 71,250 of the preferred shares originally issued to the U.S. Treasury under the CPP for approximately $71.6 million. The accrued dividend costs and the accretion of the discount recorded on the preferred stock totaled $3,814,000 during the year ended December 31, 2012. During the third quarter of 2012, Pinnacle Financial repurchased, for $755,000, the common stock warrants issued in connection with our participation in the CPP. At the time of the repurchase, the warrants had a carrying value of $3.3 million, therefore, our additional paid in capital increased $2.5 million due to the difference between the initial valuation and the repurchase amount.

At December 31, 2014, Pinnacle Bank's Tier 1 risk-based capital ratio was 11.4%, the total risk-based capital ratio was 12.6% and the leverage ratio was 10.6%, compared to 11.3%, 12.6% and 10.5% at December 31, 2013, respectively. At December 31, 2014, Pinnacle Financial's Tier 1 risk-based capital ratio was 12.1%, the total risk-based capital ratio was 13.4% and the leverage ratio was 11.3%, compared to 11.8%, 13.0% and 10.9% at December 31, 2013, respectively.

In July 2013, the Federal Reserve Board and the FDIC approved final rules that substantially amend the regulatory risk-based capital rules applicable to Pinnacle Bank and Pinnacle Financial. The final rules which became effective on January 1, 2015, implement the regulatory capital reforms of the Basel Committee on Banking Supervision reflected in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" (Basel III) and changes required by the Dodd-Frank Act.

Under these rules, the leverage and risk-based capital ratios of bank holding companies may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The final rules include new minimum risk-based capital and leverage ratios. Moreover, these rules refine the definition of what constitutes "capital" for purposes of calculating those ratios, including the definitions of Tier 1 capital and Tier 2 capital. The new minimum capital level requirements applicable to bank holding companies and banks subject to the rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6% (increased from 4%); (iii) a total risk-based capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The rules also establish a "capital conservation buffer" of 2.5% (to be phased in over three years) above the new regulatory minimum risk-based capital ratios, and result in the following minimum ratios once the capital conservation buffer is fully phased in: (i) a common equity Tier 1 risk-based capital ratio of 7%, (ii) a Tier 1 risk-based capital ratio of 8.5%, and (iii) a total risk-based capital ratio of 10.5%. The capital conservation buffer requirement is to be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such

actions.

Under these new rules, Tier 1 capital will generally consist of common stock (plus related surplus) and retained earnings, limited amounts of minority interest in the form of additional Tier 1 capital instruments, and non-cumulative preferred stock and related surplus, subject to certain eligibility standards, less goodwill and other specified intangible assets and other regulatory deductions. Cumulative preferred stock and trust preferred securities issued after May 19, 2010, will no longer qualify as Tier 1 capital, but such securities issued prior to May 19, 2010, including in the case of bank holding companies with less than $15.0 billion in total assets, trust preferred securities issued prior to that date, will continue to count as Tier 1 capital subject to certain limitations. The definition of Tier 2 capital is generally unchanged for most banking organizations, subject to certain new eligibility criteria.

Common equity Tier 1 capital will generally consist of common stock (plus related surplus) and retained earnings plus limited amounts of minority interest in the form of common stock, less goodwill and other specified intangible assets and other regulatory deductions.

The final rules allow banks and their holding companies with less than $250 billion in assets a one-time opportunity to opt-out of a requirement to include unrealized gains and losses in accumulated other comprehensive income in their capital calculation. Pinnacle Financial will likely choose to opt-out of this requirement.

Applying these rules, at December 31, 2014 Pinnacle Bank's common equity Tier 1 capital ratio would have been 10.8%, its Tier 1 risk based capital ratio would have been 10.8%, its total risk based capital ratio would have been 12.1% and its Tier 1 leverage ratio would have been 10.6%. Pinnacle Financial's respective ratios would have been 10.1%, 11.5%, 12.8% and 11.3%, which are in excess of the minimum requirements.

Dividends. Under Tennessee banking law, Pinnacle Bank is subject to restrictions on the payment of dividends to Pinnacle Financial which are similar to those applicable to national banks. Pursuant to Tennessee banking law, Pinnacle Bank may not, without the prior consent of the Commissioner of the TDFI, pay any dividends to Pinnacle Financial in a calendar year in excess of the total of Pinnacle Bank's net profits for that year plus the retained profits for the preceding two years. As of December 31, 2014, Pinnacle Bank could pay approximately $116.5 million of dividends to Pinnacle Financial without prior approval of the Commissioner of the TDFI. Pinnacle Financial initiated a quarterly dividend of $0.08 per share of common stock in the fourth quarter of 2013. Pinnacle Financial has since declared five subsequent quarterly dividend payments including the declaration, on January 20, 2015, by Pinnacle Financial Partner's Board of Directors of a $0.12 per share dividend to be paid on February 27, 2015 to shareholders of record as of the close of business on February 6, 2015. This increase represents $0.04 or 50%, when compared to the quarterly dividend paid in the fourth quarter of 2014. The amount and timing of any future dividend payments to common shareholders will be subject to the discretion of Pinnacle Financial's Board of Directors.

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 on a twelve month time frame, longer time horizons are also modeled. All policy scenarios assume a static balance sheet, although other scenarios are modeled.

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. 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 changes up or down in rates from management's flat interest rate forecast over the next twelve months, policy limits in the decline in net interest income are as follows:

- +/- 10.0% for a gradual change of 400 points; +/-20.0% for an instantaneous change of 400 basis points
- +/- 7.5% for a gradual change of 300 points; +/- 15.0% for an instantaneous change of 300 basis points
- +/- 5.0% for a gradual change of 200 points; +/- 10.0% for an instantaneous change of 200 basis points
- +/- 2.5% for a gradual change of 100 points; +/- 5.0% for an instantaneous change of 100 basis points

At December 31, 2014, our earnings simulation model indicated we were in compliance with our policies for both the gradual and instantaneous interest rate changes.

Economic value of equity. Our EVE model measures the extent that estimated economic values of our assets, liabilities and off-balance sheet items will change 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. To help limit interest rate risk, we have stated policy guidelines for an instantaneous basis point change in interest rates, such that our EVE should not decrease from our base case by more than the following:

- +/- 400 basis point change in interest rates, EVE shall not decrease by more than 40 percent
- +/- 300 basis point change in interest rates, EVE shall not decrease by more than 30 percent
- +/- 200 basis point change in interest rates, EVE shall not decrease by more than 20 percent
- +/- 100 basis point change in interest rates, EVE shall not decrease by more than 10 percent

At December 31, 2014, our EVE model indicated we were in compliance with our policies noted above. However, our policies provide that during certain interest rate cycles, the down basis point rate changes may not be particularly significant given the current slope of the yield curve. Accordingly, we have currently suspended the calculation of the down rate scenarios for EVE measurement for the down 200, down 300 and down 400 scenarios.

Another commonly analyzed scenario is 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 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.

We may also use derivative financial instruments to improve the balance between interest-sensitive assets and interest-sensitive liabilities and as one tool to manage our interest rate sensitivity 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.

Based on information gathered from these various modeling scenarios, management believes that at December 31, 2014, our balance sheet would likely be slightly liability sensitive the first 25 bps of an interest rate increase but would transition to an asset sensitive position on further rate increases as many of the floors attached to variable rate loans would be surpassed. Our modeling indicates that our level of asset sensitivity would accelerate until rates had increased 300 bps and would become neutral at that point as we believe deposit pricing would become increasingly competitive at that point.

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 an initial rise in short-term interest rates in mid- to late-2015 and that such rates will continue to increase over several quarters while the longer end of the rate curve will rise only slightly. The firm's "most likely" rate forecast has been basically consistent for several quarters and is based primarily on information we acquire from a service which includes a consensus forecast of numerous benchmarks. As a result and in preparing for an eventual rise in interest rates, we have implemented the following strategies:

- Reduced our exposure to fixed rate investment securities in relation to total assets from approximately 23% as of December 31, 2010 to a current position of approximately 13% of total assets. This reduction should assist the firm in becoming more asset sensitive over time.
- Executed a series of cash flow hedges involving approximately $200 million in FHLB borrowings at pre-established fixed rates. Fixed rate liabilities also provide for a more asset sensitive balance sheet.
- Participated in interest rate swaps whereby our customers pay a fixed rate which we remit to our counterparty while we receive in return a floating rate on these commercial loans. These loans amounted to approximately $284 million at December 31, 2014. Floating rate loans promote an asset sensitive balance sheet.
- Reduced the amount of rate floors attached to floating and variable rate commercial loans from $1.300 billion at December 31, 2013 to $1.083 billion as of December 31, 2014 thus promoting a more asset sensitive balance sheet over time.
- Reduced the difference between the weighted average floor rate on floating and variable rate commercial loans and the weighted average contract rate on these type of loans from 0.84% at December 31, 2013 to 0.73% at December 31, 2014. This reduction results in requiring a lesser increase in shorter-term rates for the floors to be overcome, thus making these loans with rate floors more asset sensitive over time.

We believe current growth in our balance sheet will also assist us in achievement of increased asset sensitivity over time; however, we may also implement a series of actions designed to accelerate our achievement of neutrality or asset sensitivity as conditions warrant.

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 December 31, 2014, 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.

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.

As noted previously, Pinnacle Bank is a member of the FHLB Cincinnati and, pursuant to a borrowing agreement with the FHLB Cincinnati, has pledged certain assets pursuant to a blanket lien. As such, Pinnacle Bank may use the FHLB Cincinnati as a source of liquidity depending on the firm's 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 at the FHLB Cincinnati. At December 31, 2014, we believe we had an estimated $793.7 million in additional borrowing capacity with the FHLB Cincinnati. However, incremental borrowings are made via a formal request by Pinnacle Bank and require subsequent approval by the FHLB Cincinnati.

Pinnacle Bank also has accommodations with upstream correspondent banks for unsecured short-term advances which aggregate $155.0 million. These accommodations have various covenants related to their term and availability, and in most cases must be repaid within less than a month. There were no outstanding borrowings under these agreements at December 31, 2014, or during the year then ended under such agreements, although we test the availability of these accommodations annually. Pinnacle Bank also has approximately $1.0 billion in available Federal Reserve discount window lines of credit.

At December 31, 2014, and 2013, excluding any reciprocating time deposits issued through the CDARS network, we had no brokered certificates of deposit. Historically, we have issued brokered certificates through several different brokerage houses based on competitive bid. Typically, these funds have been for varying maturities of up to two years and were issued at rates which were competitive to rates we would be required to pay to attract similar deposits within our local markets as well as rates for FHLB advances of similar maturities. Although we consider these deposits to be a ready source of liquidity under current market conditions, we anticipate that these deposits will continue to represent an insignificant percentage of our total funding in 2014 as we seek to maintain a higher level of core deposits.

At December 31, 2014, we had no significant commitments for capital expenditures. However we expect to build a new branch facility in the Knoxville MSA, which is tentatively scheduled for completion in the second half of 2015.

Our short-term borrowings (borrowings which mature within the next fiscal year) consist primarily of securities sold under agreements to repurchase (these agreements are typically associated with comprehensive treasury management programs for our clients and provide them with short-term returns on their excess funds) and FHLB Cincinnati advances. Information concerning our short-term borrowings as of and for each of the years in the three-year period ended December 31, 2014 is as follows (in thousands):

	At December 31,		
	2014	2013	2012
Amounts outstanding at year-end:			
Securities sold under agreements to repurchase	$93,995	$70,465	$114,667
Federal funds purchased	-	-	-
Federal Home Loan Bank short-term advances	180,000	75,000	25,000
Weighted average interest rates at year-end:			
Securities sold under agreements to repurchase	0.18 %	0.20 %	0.21 %
Federal funds purchased		-	-
Federal Home Loan Bank short-term advances	0.16 %	0.12 %	0.21 %
Maximum amount of borrowings at any month-end:			
Securities sold under agreements to repurchase	$107,244	$236,145	$153,327
Federal funds purchased	-	-	-
Federal Home Loan Bank short-term advances	260,000	285,000	160,000
Average balances for the year:			
Securities sold under agreements to repurchase	$67,999	$113,742	$134,989
Federal funds purchased	1,014	644	1,325
Federal Home Loan Bank short-term advances	80,417	62,500	96,250
Weighted average interest rates for the year:			
Securities sold under agreements to repurchase	0.21 %	0.21 %	0.34 %
Federal funds purchased	0.86 %	0.59 %	0.49 %
Federal Home Loan Bank short-term advances	0.17 %	0.18 %	0.18 %

The following table presents additional information about our contractual obligations as of December 31, 2014, which by their terms have contractual maturity and termination dates subsequent to December 31, 2014 (in thousands):

	At December 31, 2014				
	Next 12 months	13-36 months	37-60 months	More than 60 months	Totals
Contractual obligations:					
Certificates of deposit	$338,314	$88,360	$4,470	$-	$431,144
Securities sold under agreements to repurchase	93,995	-	-	-	93,995
Federal Home Loan Bank advances	180,000	15,000	8	378	195,386
Subordinated debt[1]	-	-	-	82,476	82,476
Minimum operating lease commitments	4,093	8,231	7,561	25,285	45,170
Other borrowings[1][2]	2,500	11,182	-	-	13,682
Totals	$618,902	$122,773	$12,039	$108,139	$861,853

(1) Due to the uncertainty of future interest rates on borrowings under Pinnacle Financial's holding company loan and its subordinated debentures, future interest payments on such obligations are not included in the above table. At December 31, 2014, Pinnacle Financial had borrowings of approximately $13.7 million under the holding company

loan and subordinated debentures of approximately $82.5 million outstanding. During the year ended December 31, 2014, the interest rate on the holding company loan ranged from 2.69% to 3.01% and the interest rate on the subordinated debentures issued in 2003, 2005, 2006 and 2007, respectively, ranged from 3.03% to 3.04%, 1.63% to 1.64%, 1.88% to 1.89% and 3.08% to 3.09%, respectively. During the year ended December 31, 2014, Pinnacle Financial incurred interest expense of $468,000 on borrowings under the holding company loan and $317,000, $342,000, $393,000 and $967,000, respectively, on its subordinated debentures issued in 2003, 2005, 2006 and 2007, respectively. See Note 10. Investments in Affiliated Companies and Subordinated Debt and Note 19. Other Borrowings to Pinnacle Financial's consolidated financial statements for further information.

(2) As described in Note 2. Acquisitions and Intangibles, on February 1, 2015, Pinnacle Bank borrowed $40 million from a national banking franchise pursuant to a loan agreement which requires Pinnacle Financial and Pinnacle Bank maintain certain financial covenants including minimum capital ratios, liquidity requirements and other matters. This loan has a five-year maturity and bears interest at approximately 2.95% per annum. Beginning June 30, 2015 and on the last calendar day of each quarter thereafter, Pinnacle Bank shall repay together with any interest an amount equal to $1.0 million. Pinnacle Bank is permitted to prepay all or a portion of the principal amount outstanding under the loan agreement without penalty (in minimum aggregate amounts of $100,000) at any time so long as no event of default or unmatured event of default has occurred and is continuing.

Our management believes that we have adequate liquidity to meet all known contractual obligations and unfunded commitments, including loan commitments and reasonable borrower, depositor, and creditor requirements over the next twelve months. Our operating lease commitments are primarily related to our branch and headquarters facilities. The terms of these leases expire at various points ranging from 2017 through 2039. At December 31, 2014, our total minimum operating lease commitment was $45.2 million.

Off-Balance Sheet Arrangements. At December 31, 2014, we had outstanding standby letters of credit of $66.0 million and unfunded loan commitments outstanding of $1.390 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 securities available-for-sale, or on a short-term basis to borrow and purchase Federal funds from other financial institutions. The following table presents additional information about our unfunded commitments as of December 31, 2014, which by their terms, have contractual maturity dates subsequent to December 31, 2014 (in thousands):

	At December 31, 2014				
	Next 12 months	13-36 months	37-60 months	More than 60 months	Totals
Unfunded commitments:					
Lines of credit	$675,716	$266,400	$187,675	$260,661	$1,390,452
Letters of credit	58,487	7,085	316	100	65,988
Totals	$734,203	$273,485	$187,991	$260,761	$1,456,440

We follow the same credit policies and underwriting practices when making these commitments as we do for on-balance sheet instruments. Each customer's creditworthiness is 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. However, should the commitments be drawn upon and should our customers default on their resulting obligation to us, our maximum exposure to credit loss, without consideration of collateral, is represented by the contractual amount of those instruments. At December 31, 2014, we had accrued $1.4 million for the inherent risks associated with off-balance sheet commitments.

Impact of Inflation

The consolidated financial statements and related consolidated financial data presented herein have been prepared in accordance with U.S. generally accepted accounting principles 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 February 2013, the FASB issued Accounting Standards Update (ASU) 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" which provides disclosure guidance on amounts reclassified out of AOCI by component. The adoption did not have any impact on our financial position or results of operations but has impacted our financial statement disclosure. As shown on the statement of comprehensive income for the years ended December 31, 2014, 2013 and 2012, Pinnacle Financial reclassified approximately net gains of $18,000, net losses of $891,000 and net gains of $1.3 million out of other comprehensive income into loss on the sale of investment securities, net of tax.

Recently Issued Accounting Pronouncements

In January 2014, the FASB issued ASU 2014-01, "Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects." The amendments in this ASU permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment

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performance in the income statement as a component of income tax expense (benefit). The amendments in this ASU should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this ASU are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. Pinnacle Financial does not currently have any LIHTC programs. Therefore, retroactive adoption will not impact our previously reported financial statements. Furthermore, Pinnacle Financial does not believe this consensus will have a material impact on our financial statements.

In January 2014, the FASB issued ASU 2014-04, "Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments in this ASU clarify that in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt the amendments in this ASU using either a modified retrospective transition method or a prospective transition method. Pinnacle Financial does not expect this ASU to have a material impact on our financial statements.

In June 2014, the FASB issued ASU 2014-10, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." The amendments in this ASU change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. For repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments also require enhanced disclosures. The accounting changes in this ASU are effective for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application is prohibited. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. Pinnacle Financial does not expect this ASU to have material impact on our financial statements.

In June 2014, the FASB issued ASU 2014-12, "Compensation- Stock Compensation (Topic 718): Accounting for Share-Based Payments when the Terms of an Award Provide that a Performance Target Could Be Achieved After the Requisite Service Period." The amendments in this ASU require that a performance target that affects vesting and that could be achieved after the requisite service period has elapsed be treated as a performance condition. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Entities may apply the amendments in this ASU either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this ASU as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective

transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. Pinnacle Financial does not expect this ASU to have a material impact on our financial statements.

Other than those pronouncements discussed above and those which have been recently adopted, there were no other recently issued accounting pronouncements that are expected to impact Pinnacle Financial.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The response to this Item is included in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations", on pages 31 through 60 and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS

Pinnacle Financial Partners, Inc. and Subsidiaries

Consolidated Financial Statements

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MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Pinnacle Financial Partners, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. Pinnacle Financial Partners, Inc.'s internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Pinnacle Financial Partners, Inc.'s management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (1992).

Based on our assessment we believe that, as of December 31, 2014, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm has issued an audit report on the Company's internal control over financial reporting. This report appears on page 65 of this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Pinnacle Financial Partners, Inc.:

We have audited the accompanying consolidated balance sheets of Pinnacle Financial Partners, Inc. and subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pinnacle Financial Partners, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Pinnacle Financial Partners, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 25, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

(signed) KPMG LLP

Nashville, Tennessee
February 25, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Pinnacle Financial Partners, Inc.:

We have audited Pinnacle Financial Partners, Inc.'s (the Company's) internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Pinnacle Financial Partners, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 25, 2015 expressed an unqualified opinion on those consolidated financial statements.

(signed) KPMG LLP

Nashville, Tennessee
February 25, 2015

PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
ASSETS	2014	2013
Cash and noninterest-bearing due from banks	$48,741,692	$79,785,004
Interest-bearing due from banks	134,176,054	124,509,486
Federal funds sold and other	4,989,764	4,644,247
Cash and cash equivalents	187,907,510	208,938,737
Securities available-for-sale, at fair value	732,054,785	693,456,314
Securities held-to-maturity (fair value of $38,788,870 and $38,817,467 at December 31, 2014 and 2013, respectively)	38,675,527	39,795,649
Mortgage loans held-for-sale	14,038,914	12,850,339
Loans	4,590,026,505	4,144,493,486
Less allowance for loan losses	(67,358,639)	(67,969,693)
Loans, net	4,522,667,866	4,076,523,793
Premises and equipment, net	71,576,016	72,649,574
Other investments	38,062,134	33,226,195
Accrued interest receivable	16,988,407	15,406,389
Goodwill	243,529,010	243,651,006
Core deposits and other intangible assets	2,893,072	3,840,750
Other real estate owned	11,186,414	15,226,136
Other assets	138,668,142	148,210,975
Total assets	$6,018,247,797	$5,563,775,857
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	$1,321,053,083	$1,167,414,487
Interest-bearing	1,005,450,690	884,294,802
Savings and money market accounts	2,024,957,383	1,962,714,398
Time	431,143,756	519,049,037
Total deposits	4,782,604,912	4,533,472,724
Securities sold under agreements to repurchase	93,994,730	70,465,326
Federal Home Loan Bank advances	195,476,384	90,637,328
Subordinated debt and other borrowings	96,158,292	98,658,292
Accrued interest payable	631,682	792,703
Other liabilities	46,688,416	46,041,823
Total liabilities	5,215,554,416	4,840,068,196
Stockholders' equity:		
Preferred stock, no par value; 10,000,000 shares authorized; no shares issued and outstanding at December 31, 2014 and 2013	-	-
Common stock, par value $1.00; 90,000,000 shares authorized; 35,732,483 and 35,221,941 issued and outstanding at December 31, 2014 and 2013, respectively	35,732,483	35,221,941
Additional paid-in capital	561,431,449	550,212,135
Retained earnings	201,371,081	142,298,199
Accumulated other comprehensive income (loss), net of taxes	4,158,368	(4,024,614)

Total stockholders' equity	802,693,381	723,707,661
Total liabilities and stockholders' equity	$6,018,247,797	$5,563,775,857

See accompanying notes to consolidated financial statements.

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

	For the years ended December 31,		
	2014	2013	2012
Interest income:			
Loans, including fees	$184,648,800	$169,252,739	$160,036,709
Securities:			
Taxable	14,227,172	14,504,464	16,931,417
Tax-exempt	6,167,264	6,378,345	6,576,701
Federal funds sold and other	1,126,726	1,146,867	1,876,731
Total interest income	206,169,962	191,282,415	185,421,558
Interest expense:			
Deposits	9,953,930	11,721,387	16,842,852
Securities sold under agreements to repurchase	140,623	238,775	455,499
Federal Home Loan Bank advances and other borrowings	3,090,860	3,423,617	5,258,749
Total interest expense	13,185,413	15,383,779	22,557,100
Net interest income	192,984,549	175,898,636	162,864,458
Provision for loan losses	3,634,660	7,856,522	5,568,830
Net interest income after provision for loan losses	189,349,889	168,042,114	157,295,628
Noninterest income:			
Service charges on deposit accounts	11,707,274	10,557,528	9,917,754
Investment services	9,382,670	8,038,425	6,984,970
Insurance sales commissions	4,612,583	4,537,150	4,461,404
Gains on mortgage loans sold, net	5,630,371	6,243,411	6,698,618
Investment gains (losses) on sales and impairments, net	29,221	(1,466,475)	2,150,605
Trust fees	4,601,036	3,747,241	3,195,950
Other noninterest income	16,639,323	15,446,298	9,987,335
Total noninterest income	52,602,478	47,103,578	43,396,636
Noninterest expense:			
Salaries and employee benefits	88,319,567	82,646,967	78,056,564
Equipment and occupancy	24,087,335	21,273,454	20,420,333
Other real estate expense	664,289	3,113,046	11,544,067
Marketing and other business development	4,127,949	3,638,941	3,635,810
Postage and supplies	2,391,838	2,249,950	2,379,730
Amortization of intangibles	947,678	1,262,524	2,738,994
Other noninterest expense	15,761,027	15,076,332	19,389,368
Total noninterest expense	136,299,683	129,261,214	138,164,866
Income before income taxes	105,652,684	85,884,478	62,527,398
Income tax expense	35,181,517	28,158,277	20,643,517
Net income	70,471,167	57,726,201	41,883,881
Preferred stock dividends	-	-	1,660,868
Accretion on preferred stock discount	-	-	2,153,172
Net income available to common stockholders	$70,471,167	$57,726,201	$38,069,841
Per share information:			
Basic net income per common share available to common stockholders	$2.03	$1.69	$1.12

Diluted net income per common share available to common stockholders	$2.01	$1.67	$1.10
Weighted average common shares outstanding:			
Basic	34,723,335	34,200,770	33,899,667
Diluted	35,126,890	34,509,261	34,487,808

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Net income:	$70,471,167	$57,726,201	$41,883,881
Other comprehensive income (loss), net of tax:			
Increase (decrease) in net gains on securities available-for-sale, net of deferred tax expense (benefit)	11,900,309	(22,156,995)	(2,798,700)
(Decrease) increase in fair value of forward cash flow hedge, net of tax expense (benefit)	(3,699,569)	4,013,570	-
Net losses (gains) on sale of investment securities reclassified out of other comprehensive income into net income, net of tax	(17,758)	891,177	(1,306,923)
Total other comprehensive income (loss), net of tax	8,182,982	17,252,248	(4,105,623)
Total comprehensive income	$78,654,149	$40,473,953	$37,778,258

See accompanying notes to consolidated financial statements.

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

For the each of the years in the three-year period ended December 31, 2014

	Preferred Stock Amount	Common Stock		Common Stock Warrants	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockhol Equity
		Shares	Amount					
Balances, December 31, 2011	$69,096,828	34,354,960	$ 34,354,960	$ 3,348,402	$ 536,227,537	$ 49,783,584	$ 17,333,257	$ 710,14
Exercise of employee common stock options, stock appreciation rights, common stock warrants and related tax benefits	-	245,229	245,229	-	1,455,969	-	-	1,701,
Repurchase of preferred stock	(71,250,000)	-	-	-	-	-	-	(71,25
Issuance of restricted common shares, net of forfeitures	-	102,119	102,119	-	(102,119)	-	-	-
Issuance of salary stock units	-	57,508	57,508	-	942,565	-	-	1,000,
Restricted shares withheld for taxes	-	(63,219)	(63,219)	-	(1,021,409)	-	-	(1,084
Compensation expense for restricted shares	-	-	-	-	3,270,028	-	-	3,270,
Compensation expense for stock options	-	-	-	-	394,466	-	-	394,46
Cancellation of outstanding warrants	-	-	-	(3,348,402)	2,593,402	-	-	(755,0
Accretion on preferred stock discount	2,153,172	-	-	-	-	(2,153,172)	-	-
Preferred dividends paid	-	-	-	-	-	(2,127,604)	-	(2,127

Net income	-	-	-	-	-	41,883,881	-	41,883
Other comprehensive loss	-	-	-	-	-	-	(4,105,623)	(4,105
Balances, December 31, 2012	$-	34,696,597	$ 34,696,597	$ -	$ 543,760,439	$ 87,386,689	$ 13,227,634	$ 679,07
Exercise of employee common stock options, stock appreciation rights, common stock warrants and related tax benefits	-	280,008	280,008	-	3,961,042	-	-	4,241,
Issuance of restricted common shares, net of forfeitures	-	303,111	303,111	-	(303,111)	-	-	-
Restricted shares withheld for taxes	-	(57,775)	(57,775)	-	(1,288,367)	-	-	(1,346
Compensation expense for restricted shares	-	-	-	-	4,069,662	-	-	4,069,
Compensation expense for stock options	-	-	-	-	12,470	-	-	12,470
Common dividends paid	-	-	-	-	-	(2,814,691)	-	(2,814
Net income	-	-	-	-	-	57,726,201	-	57,726
Other comprehensive loss	-	-	-	-	-	-	(17,252,248)	(17,25
Balances, December 31, 2013	$-	35,221,941	$ 35,221,941	$ -	$ 550,212,135	$ 142,298,199	$ (4,024,614)	$ 723,70
Exercise of employee common stock options, stock appreciation rights, common stock warrants and related tax benefits	-	302,403	302,403	-	8,444,894	-	-	8,747,
Issuance of restricted	-	277,187	277,187	-	(277,187)	-	-	-

common shares, net of forfeitures								
Restricted shares withheld for taxes	-	(69,048)	(69,048)	-	(2,256,560)	-	-	(2,325
Compensation expense for restricted shares	-	-	-	-	5,308,167	-	-	5,308,
Common dividends paid	-	-	-	-	-	(11,398,285)	-	(11,39
Net income	-	-	-	-	-	70,471,167	-	70,471
Other comprehensive income	-	-	-	-	-	-	8,182,982	8,182,
Balances, December 31, 2014	-	35,732,483	$ 35,732,483	$ -	$ 561,431,449	$ 201,371,081	$4,158,368	$802,69

See accompanying notes to consolidated financial statements.

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

	For the years ended December 31,		
	2014	2013	2012
Operating activities:			
Net income	$70,471,167	$57,726,201	$41,883,881
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization/accretion of premium/discount on securities	4,526,497	4,438,303	7,291,775
Depreciation and amortization	9,282,197	9,245,876	10,207,638
Provision for loan losses	3,634,660	7,856,522	5,568,830
Investment (gains) losses on sales and impairments, net	(29,221)	1,466,475	(2,150,605)
Gain on mortgage loans sold, net	(5,630,371)	(6,243,411)	(6,698,618)
Stock-based compensation expense	5,308,167	4,082,132	4,414,452
Deferred tax expense (benefit)	394,452	1,841,044	1,547,626
(Gains) losses on disposition of other real estate and other investments	(74,807)	3,103,008	9,608,358
Excess tax benefit from stock compensation	(1,698,521)	(389,415)	(36,071)
Mortgage loans held for sale:			
Loans originated	(331,135,205)	(385,173,288)	(486,930,709)
Loans sold	335,577,000	419,761,000	487,798,601
Decrease in other assets	4,014,267	11,567,952	36,400,237
(Decrease) increase in other liabilities	417,873	(2,847,047)	5,372,270
Net cash provided by operating activities	95,058,155	126,435,352	114,277,665
Investing activities:			
Activities in securities available-for-sale:			
Purchases	(149,051,923)	(233,887,505)	(222,831,813)
Sales	2,360,478	23,439,144	188,586,154
Maturities, prepayments and calls	123,949,792	143,322,733	210,732,980
Activities in securities held-to-maturity:			
Purchases	(923,652)	(3,496,186)	-
Sales	-	-	-
Maturities, prepayments and calls	1,229,874	3,623,800	1,755,000
Increase in loans, net	(455,357,214)	(447,907,395)	(440,508,548)
Purchases of premises and equipment and software	(5,878,562)	(5,293,919)	(5,864,452)
Purchase of bank owned life insurance	-	(38,352,344)	-
(Increase) decrease in other investments	(4,208,447)	(6,141,232)	