PINNACLE FINANCIAL PARTNERS INC
Form 10-Q
May 03, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d)
OF THE SECURITIES AND EXCHANGE ACT OF 1934
For the transition period from ____ to ____
Commission File Number: 000-31225

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

Tennessee	62-1812853
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

150 Third Avenue South, Suite 900, Nashville, Tennessee 37201	
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files).

Yes x No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o	No x

As of April 30, 2013 there were 35,028,737 shares of common stock, $1.00 par value per share, issued and outstanding.

Pinnacle Financial Partners, Inc.
Report on Form 10-Q
March 31, 2013

TABLE OF CONTENTS

Table of Contents

FORWARD-LOOKING STATEMENTS

Certain of the statements in this report 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 express 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 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 loan losses and provisions for those losses; (ii) continuation of the historically low, short-term interest rate environment; (iii) the inability of Pinnacle Financial to grow its loan portfolio in the Nashville-Davidson-Murfreesboro-Franklin MSA (the "Nashville MSA") and the Knoxville MSA; (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 MSA and the Knoxville MSA, particularly in commercial and residential real estate markets; (viii) rapid fluctuations or unanticipated changes in interest rates; (ix) the results of regulatory examinations; (x) the development of any new market other than Nashville or Knoxville; (xi) a merger or acquisition; (xii) any matter that would cause Pinnacle Financial to conclude that there was impairment of any asset, including intangible assets; (xiii) the ability to attract additional financial advisors or to attract customers from other financial institutions and conversely, the inability to realize the economic benefits of newly hired financial advisors; (xiv) the ability to retain large, uninsured deposits with the expiration of the FDIC's transaction account guarantee program; (xv) further deterioration in the valuation of other real estate owned and increased expenses associated therewith; (xvi) inability to comply with regulatory capital requirements; and, (xvii) 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 (the "Dodd-Frank Act"). A more detailed description of these and other risks is contained in "Item 1A. Risk Factors" of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 22, 2013. 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 quarterly report, whether as a result of new information, future events or otherwise.

Table of Contents

Item 1.Part I. Financial Information

PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Cash and noninterest-bearing due from banks	$57,906,350	$51,946,542
Interest-bearing due from banks	38,860,678	111,535,083
Federal funds sold and other	2,792,238	1,807,044
Cash and cash equivalents	99,559,266	165,288,669
Securities available-for-sale, at fair value	683,545,006	706,577,806
Securities held-to-maturity (fair value of $40,376,745 and $583,212 at March 31, 2013 and December 31, 2012, respectively)	40,458,642	574,863
Mortgage loans held-for-sale	30,326,709	41,194,639
Loans	3,772,363,758	3,712,162,430
Less allowance for loan losses	(69,411,493)	(69,417,437)
Loans, net	3,702,952,265	3,642,744,993
Premises and equipment, net	75,760,671	75,804,895
Other investments	27,311,943	26,962,890
Accrued interest receivable	16,940,917	14,856,615
Goodwill	244,011,793	244,040,421
Core deposits and other intangible assets	4,582,286	5,103,273
Other real estate owned	16,802,183	18,580,097
Other assets	128,683,433	98,819,455
Total assets	$5,070,935,114	$5,040,548,616
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$977,495,990	$985,689,460
Interest-bearing	788,631,493	760,786,247
Savings and money market accounts	1,564,517,135	1,662,256,403
Time	572,250,233	606,455,873
Total deposits	3,902,894,851	4,015,187,983
Securities sold under agreements to repurchase	129,099,508	114,667,475
Federal Home Loan Bank advances	200,796,066	75,850,390
Subordinated debt and other borrowings	105,533,292	106,158,292
Accrued interest payable	1,235,441	1,360,598
Other liabilities	39,942,214	48,252,519
Total liabilities	4,379,501,372	4,361,477,257
Stockholders' equity:		
Preferred stock, no par value, 10,000,000 shares authorized; no shares issued and outstanding	-	-
	35,022,487	34,696,597

Common stock, par value $1.00; 90,000,000 shares authorized; 35,022,487 and 34,696,597 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively		
Additional paid-in capital	544,619,717	543,760,439
Retained earnings	100,834,814	87,386,689
Accumulated other comprehensive income, net of taxes	10,956,724	13,227,634
Total stockholders' equity	691,433,742	679,071,359
Total liabilities and stockholders' equity	$5,070,935,114	$5,040,548,616

See accompanying notes to consolidated financial statements

Table of Contents

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Interest income:		
Loans, including fees	$41,514,213	$38,637,719
Securities:		
Taxable	3,670,934	4,929,284
Tax-exempt	1,656,408	1,703,146
Federal funds sold and other	314,772	553,939
Total interest income	47,156,327	45,824,088
Interest expense:		
Deposits	3,412,396	4,827,476
Securities sold under agreements to repurchase	77,816	155,576
Federal Home Loan Bank advances and other borrowings	907,641	1,337,031
Total interest expense	4,397,853	6,320,083
Net interest income	42,758,474	39,504,005
Provision for loan losses	2,172,404	1,034,245
Net interest income after provision for loan losses	40,586,070	38,469,760
Noninterest income:		
Service charges on deposit accounts	2,480,244	2,323,962
Investment services	1,792,640	1,646,778
Insurance sales commissions	1,393,304	1,287,560
Gain on mortgage loans sold, net	1,813,488	1,494,472
Gain on sale of investment securities, net	-	113,600
Trust fees	944,332	795,435
Other noninterest income	3,478,348	2,287,531
Total noninterest income	11,902,356	9,949,338
Noninterest expense:		
Salaries and employee benefits	19,572,356	19,792,566
Equipment and occupancy	5,113,050	5,008,655
Other real estate expense	720,962	4,676,064
Marketing and other business development	790,671	785,325
Postage and supplies	591,488	563,294
Amortization of intangibles	520,987	686,067
Other noninterest expense	5,130,495	4,307,735
Total noninterest expense	32,440,009	35,819,706
Income before income taxes	20,048,417	12,599,392
Income tax expense	6,600,292	4,234,438
Net income	13,448,125	8,364,954
Preferred stock dividends	-	900,519
Accretion on preferred stock discount	-	258,647
Net income available to common stockholders	$13,448,125	$7,205,788

Per share information:		
Basic net income per common share available to common stockholders	$0.40	$0.21
Diluted net income per common share available to common stockholders	$0.39	$0.21
Weighted average shares outstanding:		
Basic	33,987,265	33,811,871
Diluted	34,206,202	34,423,898

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
Net income	$13,448,125	$8,364,954
Other comprehensive income, net of tax:		
Decrease in net gains on securities available-for-sale, net of tax	(2,270,910)	(771,981)
Net gains on sale of investment securities reclassified from other comprehensive income into net income, net of tax	-	(75,431)
Total comprehensive income	$11,177,215	$7,517,542

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Common Stock Warrants	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comp. Income, net	Total Stockh Ec
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,
Exercise of employee common stock options and related tax benefits	-	180,487	180,487	-	304,428	-	-	484,
Issuance of restricted common shares, net of forfeitures		95,912	95,912	-	(95,912)	-	-	-
Issuance of salary stock units	-	27,672	27,672	-	449,891	-	-	477,
Restricted shares withheld for taxes	-	(43,018)	(43,018)	-	(36,459)	-	-	(79,4
Compensation expense for restricted shares	-	-	-	-	857,160	-	-	857,
Compensation expense for stock options	-	-	-	-	153,801	-	-	153,
Accretion on preferred stock discount	258,647	-	-	-	-	(258,647)	-	-
Preferred dividends paid	-	-	-	-	-	(890,624)	-	(890
Net income	-	-	-	-	-	8,364,954	-	8,36
Other comprehensive loss	-	-	-	-	-	-	(847,412)	(847
Balances, March 31, 2012	$69,355,475	34,616,013	$34,616,013	$3,348,402	$537,860,446	$56,999,267	$16,485,845	$718,
	$-	34,696,597	$34,696,597	$-	$543,760,439	$87,386,689	$13,227,634	$679,

Balances, December 31, 2012								
Exercise of employee common stock options and related tax benefits	-	88,845	88,845	-	902,533	-	-	991,
Issuance of restricted common shares, net of forfeitures	-	274,545	274,545	-	(274,545)	-	-	-
Restricted shares withheld for taxes	-	(37,500)	(37,500)	-	(731,679)	-	-	(769
Compensation expense for restricted shares	-	-	-	-	950,498	-	-	950,
Compensation expense for stock options	-	-	-	-	12,471	-	-	12,4
Net income	-	-	-	-	-	13,448,125	-	13,4
Other comprehensive loss	-	-	-	-	-	-	(2,270,910)	(2,27
Balances, March 31, 2013	$-	35,022,487	$35,022,487	$-	$544,619,717	$100,834,814	$10,956,724	$691,

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three Months ended March 31, 2013	Three Months ended March 31, 2012
Operating activities:		
Net income	$13,448,125	$8,364,954
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization/accretion of premium/discount on securities	988,811	1,971,889
Depreciation and amortization	2,432,535	2,660,347
Provision for loan losses	2,172,404	1,034,245
Gain on mortgage loans sold, net	(1,813,488)	(1,494,472)
Gain on sale of investment securities, net	-	(113,600)
Stock-based compensation expense	962,969	1,488,522
Deferred tax benefit	(698,661)	(1,831,027)
(Gains) losses on dispositions of other real estate and other investments	(866,306)	4,283,855
Excess tax benefit from stock compensation	(28,628)	(4,978)
Mortgage loans held for sale:		
Loans originated	(107,845,659)	(105,694,598)
Loans sold	120,569,000	119,023,000
Decrease in other assets	3,050,703	15,794,855
Decrease in other liabilities	(8,339,670)	(3,128,767)
Net cash provided by operating activities	24,032,135	42,354,225
Investing activities:		
Activities in securities available-for-sale:		
Purchases	(65,052,729)	(17,954,670)
Sales	-	14,359,785
Maturities, prepayments and calls	43,551,916	56,585,619
Activities in securities held-to-maturity:		
Maturities, prepayments and calls	(75,868)	1,280,000
Increase in loans, net	(63,167,119)	(54,941,031)
Purchases of software, premises and equipment	(1,442,076)	(1,271,826)
Purchase of bank owned life insurance	(30,000,000)	-
Increase in other investments	(303,750)	(286,569)
Net cash used in investing activities	(116,489,626)	(2,228,692)
Financing activities:		
Net decrease in deposits	(112,293,132)	(66,220,256)
Net increase (decrease) in securities sold under agreements to repurchase	14,432,033	(13,502,880)
Advances from Federal Home Loan Bank:		
Issuances	240,000,000	215,000,000
Payments/maturities	(115,036,641)	(215,017,901)
Decrease in other borrowings	(625,000)	-
Exercise of common stock options and stock appreciation rights	222,200	405,438
Excess tax benefit from stock compensation	28,628	4,978
Preferred dividends paid	-	(890,624)

Net cash provided by (used in) financing activities	26,728,088	(80,221,245)
Net decrease in cash and cash equivalents	(65,729,403)	(40,095,712)
Cash and cash equivalents, beginning of period	165,288,669	172,163,040
Cash and cash equivalents, end of period	$99,559,266	$132,067,328

See accompanying notes to consolidated financial statements.

Table of Contents

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

Note 1. Summary of Significant Accounting Policies

Nature of Business — Pinnacle Financial Partners, Inc. (Pinnacle Financial) is a bank holding company whose primary business is conducted by its wholly-owned subsidiary, Pinnacle Bank. Pinnacle Bank is a commercial bank headquartered in Nashville, Tennessee. Pinnacle Bank provides a full range of banking services in its primary market areas of the Nashville-Davidson-Murfreesboro-Franklin, Tennessee and Knoxville, Tennessee Metropolitan Statistical Areas.

Basis of Presentation — The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles (U.S. GAAP). All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods covered by the report have been included. The accompanying unaudited consolidated financial statements should be read in conjunction with the Pinnacle Financial consolidated financial statements and related notes appearing in the 2012 Annual Report previously filed on Form 10-K.

These consolidated financial statements include the accounts of Pinnacle Financial and its wholly-owned subsidiaries. PNFP Statutory Trust I, PNFP Statutory Trust II, PNFP Statutory Trust III and PNFP Statutory Trust IV are affiliates of Pinnacle Financial and are included in these consolidated financial statements pursuant to the equity method of accounting. Significant intercompany transactions and accounts are eliminated in consolidation.

Use of Estimates — The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, any potential impairment of intangible assets, including goodwill and the valuation of deferred tax assets, other real estate owned, and our investment portfolio, including other-than-temporary impairment. These financial statements should be read in conjunction with Pinnacle Financial’s Annual Report on Form 10-K for the year ended December 31, 2012. There have been no significant changes to Pinnacle Financial’s significant accounting policies as disclosed in Pinnacle Financial’s Annual Report on Form 10-K for the year ended December 31, 2012.

Recently Adopted Accounting Pronouncements — In February 2013, the FASB issued Accounting Standards Update 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 other comprehensive income for the three months ended March 31, 2012, Pinnacle Financial reclassified approximately $75,000, net of tax, out of accumulated other comprehensive income into net income related to net gains on sale of investment securities.

Cash Flow Information — Supplemental cash flow information addressing certain cash and noncash transactions for each of the three months ended March 31, 2013 and 2012 was as follows:

	For the three months ended March 31,	
	2013	2012
Cash Transactions:		
Interest paid	$ 4,540,692	$ 6,659,856
Income taxes paid, net	7,100,000	7,825,894
Noncash Transactions:		
Loans charged-off to the allowance for loan losses	3,557,313	4,925,559
Loans foreclosed upon and transferred to other real estate owned	550,000	4,574,792
Available-for-sale securities transferred to held-to-maturity portfolio	39,959,647	-

Table of Contents

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

Income Per Common Share — Basic net income per common share available to common stockholders (EPS) is computed by dividing net income available to common stockholders by the weighted average common shares outstanding for the period. Weighted average common shares outstanding also include salary stock units issued to the named executive officers. Diluted EPS reflects the dilution that could occur if securities or other contracts to issue common stock were exercised or converted. The difference between basic and diluted weighted average shares outstanding is attributable to common stock options, common stock appreciation rights, warrants and restricted shares with time-based vesting criteria. The dilutive effect of outstanding options, common stock appreciation rights, warrants and restricted shares with time-based vesting criteria is reflected in diluted EPS by application of the treasury stock method.

For the three months ended March 31, 2013, approximately 219,000 shares associated with dilutive stock options, stock appreciation rights and restricted shares with time-based vesting criteria were included in the net income per share calculation. For the three months ended March 31, 2012, there were approximately 612,000 shares associated with dilutive stock options, stock appreciation rights and time-based restricted shares with time-based vesting criteria outstanding to purchase common shares that were included in the net income per share calculation.

The following is a summary of the basic and diluted net income per share calculations for the three months ended March 31, 2013 and 2012:

	For the three months ended March 31,	
	2013	2012
Basic net income per share calculation:		
Numerator - Net income available to common stockholders	$13,448,125	$7,205,788
Denominator - Average common shares outstanding	33,987,265	33,811,871
Basic net income per share available to common stockholders	$0.40	$0.21
Diluted net income per share calculation:		
Numerator – Net income available to common stockholders	$13,448,125	$7,205,788
Denominator - Average common shares outstanding	33,987,265	33,811,871
Dilutive shares contingently issuable	218,937	612,027
Average diluted common shares outstanding	34,206,202	34,423,898
Diluted net income per share available to common stockholders	$0.39	$0.21

Note 2. Participation in U.S. Treasury Capital Purchase Program (CPP)

On December 12, 2008, Pinnacle Financial issued 95,000 shares of preferred stock to the U.S. Treasury (the Treasury) for $95 million pursuant to the CPP. For the time the CPP preferred stock was outstanding, the CPP preferred stock was non-voting, other than having class voting rights on certain matters, and paid cumulative dividends quarterly at a rate of 5% per annum. Pinnacle Financial redeemed the preferred shares issued to the Treasury under the CPP in two transactions. During the fourth quarter of 2011, Pinnacle Financial redeemed 23,750 of the preferred shares in a transaction totaling approximately $23.9 million, including accrued but unpaid dividends of $142,000. During the second quarter of 2012, Pinnacle Financial completed the redemption of the remaining 71,250 preferred shares outstanding in a transaction totaling $71.6 million which included accrued but unpaid dividends of $346,000. Concurrently, Pinnacle Financial accelerated the accretion of the remaining preferred stock discount of approximately $1.7 million during the second quarter of 2012.

Additionally, Pinnacle Financial issued warrants to purchase 534,910 shares of common stock to the 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 held by the Treasury for $755,000.

Table of Contents

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

Note 3. Securities

The amortized cost and fair value of securities available-for-sale and held-to-maturity at March 31, 2013 and December 31, 2012 are summarized as follows (in thousands):

	March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. government agency securities	$ 139,609	$ 55	$ 1,420	$ 138,244
Mortgage-backed securities	358,702	14,750	1,595	371,857
State and municipal securities	134,731	10,563	187	145,107
Agency-backed securities	17,393	-	35	17,358
Corporate notes and other	9,512	1,469	2	10,979
	$ 659,947	$ 26,837	$ 3,239	$ 683,545
Securities held-to-maturity:				
State and municipal securities	$ 40,459	$ 9	$ 91	$ 40,377
	$ 40,459	$ 9	$ 91	$ 40,377

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. government agency securities	$ 110,817	$ 49	$ 414	$ 110,452
Mortgage-backed securities	360,504	15,770	623	375,651
State and municipal securities	177,364	14,489	126	191,727
Agency-backed securities	17,361	-	9	17,352
Corporate notes and other	9,881	1,519	4	11,396
	$ 675,927	$ 31,827	$ 1,176	$ 706,578
Securities held-to-maturity:				
State and municipal securities	$ 575	$ 8	$ -	$ 583
	$ 575	$ 8	$ -	$ 583

At March 31, 2013, approximately $612.3 million of securities within Pinnacle Financial's investment portfolio were either pledged to secure public funds and other deposits or securities sold under agreements to repurchase.

During the first quarter of 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.

The amortized cost and fair value of debt securities as of March 31, 2013 by contractual maturity are shown below. Actual maturities may differ from contractual maturities of mortgage- and asset-backed securities since the mortgages and assets underlying the securities may be called or prepaid with or without penalty. Therefore, these securities are not included in the maturity categories in the following summary (in thousands):

	March 31, 2013			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$9,570	$9,717	$1,891	$1,891
Due in one year to five years	20,923	21,543	1,016	1,021
Due in five years to ten years	142,376	149,503	9,510	9,509
Due after ten years	110,983	113,567	28,042	27,956
Mortgage-backed securities	358,702	371,857	-	-
Asset-backed securities	17,393	17,358	-	-
	$659,947	$683,545	$40,459	$40,377

Table of Contents

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

At March 31, 2013 and December 31, 2012, included in securities were the following available-for-sale investments with unrealized losses. The information below classifies these investments according to the term of the unrealized losses of less than twelve months or twelve months or longer (in thousands):

	Investments with an Unrealized Loss of less than 12 months		Investments with an Unrealized Loss of 12 months or longer		Total Investments with an Unrealized Loss	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At March 31, 2013:						
U.S. government agency securities	$121,169	$1,420	$-	$-	$121,169	$1,420
Mortgage-backed securities	67,940	1,595	-	-	67,940	1,595
State and municipal securities	41,084	187	-	-	41,084	187
Agency-backed securities	17,358	35	-	-	17,358	35
Corporate notes	364	2	-	-	364	2
Total temporarily-impaired securities	$247,915	$3,239	$-	$-	$247,915	$3,239
At December 31, 2012:						
U.S. government agency securities	$78,899	$414	$-	$-	$78,899	$414
Mortgage-backed securities	40,988	623	-	-	40,988	623
State and municipal securities	5,179	126	-	-	5,179	126
Agency-backed securities	17,353	9	-	-	17,353	9
Corporate notes	162	4	-	-	162	4
Total temporarily-impaired securities	$142,581	$1,176	$-	$-	$142,581	$1,176

The applicable dates for determining when securities are in an unrealized loss position are March 31, 2013 and December 31, 2012. As such, it is possible that a security had a market value that exceeded its amortized cost on other days during the past twelve-month periods ended March 31, 2013 and December 31, 2012, but is in the "Investments with an Unrealized Loss of less than 12 months" category above.

As shown in the tables above, at March 31, 2013, Pinnacle Financial had approximately $3.2 million in unrealized losses on $247.9 million of available-for-sale securities. Any unrealized losses associated with these investment securities are driven by changes in interest rates and are not due to the credit quality of the securities. These securities will continue to be monitored as a part of our ongoing impairment analysis, but are expected to perform even if the rating agencies reduce the credit rating of the bond issuers. Management evaluates the financial performance of the issuers on a quarterly basis to determine if it is probable that the issuers can make all contractual principal and interest payments. Because Pinnacle Financial currently does not intend to sell those securities that have an unrealized loss at March 31, 2013, and it is not more-likely-than-not that Pinnacle Financial will be required to sell the securities before recovery of their amortized cost bases, which may be maturity, Pinnacle Financial does not consider these securities to be other-than-temporarily impaired at March 31, 2013.

Periodically, available-for-sale securities may be sold or the composition of the portfolio realigned to improve yields, quality or marketability, or to implement changes in investment or asset/liability strategy, including maintaining collateral requirements, and raising funds for liquidity purposes. Additionally, if an available-for-sale security loses its investment grade, tax-exempt status, the underlying credit support is terminated or collection otherwise becomes uncertain based on factors known to management, Pinnacle Financial will consider selling the security, but will review each security on a case-by-case basis as these factors become known. No securities were sold during the three months ended March 31, 2013.

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

Note 4. Loans and Allowance for Loan Losses

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

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

Commercial loans receive risk ratings by the assigned financial advisor subject to validation by Pinnacle Financial's independent loan review department. Risk ratings are categorized as pass, special mention, substandard, substandard-nonaccrual or doubtful-nonaccrual. Pinnacle Financial believes that its categories follow those used by Pinnacle Bank's primary regulators. At March 31, 2013, approximately 75% of our loan portfolio was analyzed as a commercial loan type with a specifically assigned risk rating in the allowance for loan loss assessment. Consumer loans and small business loans are generally not assigned an individual risk rating but are evaluated as either accrual or nonaccrual based on the performance of the individual loans. However, certain consumer real estate-mortgage loans and certain consumer and other loans receive a specific risk rating due to the loan proceeds being used for commercial purposes even though the collateral may be of a consumer loan nature.

Risk ratings are subject to continual review by the loan officer. At least annually, our credit policy requires that every risk rated loan of $500,000 or more be subject to a formal credit risk review process. Each loan grade is also subject to review by our independent loan review department, which reviews a significant portion of our risk rated portfolio annually. Included in the coverage are independent loan reviews of loans in targeted higher-risk portfolio segments.

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

- Special mention loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in Pinnacle Financial's credit position at some future date.
- Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize collection of the debt. Substandard loans are characterized by the distinct possibility that Pinnacle Financial will sustain some loss if the deficiencies are not corrected.
    - Substandard-nonaccrual loans are substandard loans that have been placed on nonaccrual status.
- Doubtful-nonaccrual loans have all the characteristics of substandard-nonaccrual loans with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

The following table outlines the amount of each loan classification categorized into each risk rating category as of March 31, 2013 and December 31, 2012 (in thousands):

March 31, 2013	Commercial real estate - mortgage	Consumer real estate - mortgage	Construction and land development	Commercial and industrial	Consumer and other	Total
Accruing loans						
Pass	$ 1,203,486	$ 649,150	$ 257,668	$ 1,349,725	$ 107,814	$ 3,567,843
Special Mention	10,556	2,601	27,696	24,947	-	65,800
Substandard (1)	38,829	11,414	19,201	26,774	-	96,218
Total	1,252,871	663,165	304,565	1,401,446	107,814	3,729,861
Impaired loans						
Nonaccrual loans						
Substandard-nonaccrual	11,064	7,494	1,799	1,372	103	21,832

Doubtful-nonaccrual	1	-	-	3	-	4
Total nonaccrual loans	11,065	7,494	1,799	1,375	103	21,836
Troubled debt restructurings(2)						
Pass	316	2,778	69	433	315	3,911
Special Mention	-	-	-	-	-	-
Substandard	14,387	2,195	-	174	-	16,756
Total troubled debt restructurings	14,703	4,973	69	607	315	20,667
Total impaired loans	25,768	12,467	1,868	1,982	418	42,503
Total loans	$ 1,278,639	$ 675,632	$ 306,433	$ 1,403,428	$ 108,232	$ 3,772,364

Table of Contents

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

December 31, 2012	Commercial real estate - mortgage	Consumer real estate - mortgage	Construction and land development	Commercial and industrial	Consumer and other	Total
Accruing loans						
Pass	$ 1,093,628	$ 649,571	$ 259,878	$ 1,390,207	$ 93,712	$ 3,486,996
Special Mention	12,670	4,242	29,472	23,133	-	69,517
Substandard (1)	42,343	13,896	19,622	29,513	-	105,374
Total	1,148,641	667,709	308,972	1,442,853	93,712	3,661,887
Impaired loans						
Nonaccrual loans						
Substandard-nonaccrual	9,290	5,877	4,509	3,035	79	22,790
Doubtful-nonaccrual	1	29	-	3	-	33
Total nonaccrual loans	9,291	5,906	4,509	3,038	79	22,823
Troubled debt restructurings(2)						
Pass	4,705	3,623	71	502	119	9,020
Special Mention	-	-	-	-	-	-
Substandard	15,559	2,688	-	185	-	18,432
Total troubled debt restructurings	20,264	6,311	71	687	119	27,452
Total impaired loans	29,555	12,217	4,580	3,725	198	50,275
Total loans	$ 1,178,196	$ 679,926	$ 313,552	$ 1,446,578	$ 93,910	$ 3,712,162

(1) Potential problem loans represent those loans with a well-defined weakness and where information about possible credit problems of borrowers has caused management to have doubts about the borrower's ability to comply with present repayment terms. This definition is believed to be substantially consistent with the standards established by Pinnacle Bank's primary regulators for loans classified as substandard, excluding the impact of substandard nonaccrual loans and substandard troubled debt restructurings. Potential problem loans, which are not included in nonaccrual loans, amounted to approximately $96.2 million at March 31, 2013, compared to $105.4 million at December 31, 2012.

(2) Troubled debt restructurings are presented as an impaired loan; however, they continue to accrue interest at contractual rates.

At March 31, 2013 and December 31, 2012, all loans classified as nonaccrual were deemed to be impaired. The principal balances of these nonaccrual loans amounted to $21.8 million and $22.8 million at March 31, 2013 and December 31, 2012, respectively, and are included in the table above. For the three months ended March 31, 2013, the average balance of nonaccrual loans was $24.2 million as compared to $32.6 million for the twelve months ended December 31, 2012. At the date such loans were placed on nonaccrual status, Pinnacle Financial reversed all previously accrued interest income against current year earnings. Had these nonaccrual loans been on accruing status, interest income would have been higher by $292,000, respectively, for the three months ended March 31, 2013 compared to $759,000, respectively, for the three months ended March 31, 2012, respectively.

The following table details the recorded investment, unpaid principal balance and related allowance and average recorded investment of our nonaccrual loans at March 31, 2013 and December 31, 2012 by loan classification and the amount of interest income recognized on a cash basis throughout the quarter and year-to-date period then ended, respectively, on these loans that remain on the balance sheets (in thousands):

	At March 31, 2013			For the three months ended March 31, 2013	
	Recorded investment	Unpaid principal balance	Related allowance(1)	Average recorded investment	Interest income recognized
Collateral dependent nonaccrual loans:					
Commercial real estate – mortgage	$8,352	$8,772	$ -	$ 9,220	$ -
Consumer real estate – mortgage	5,030	5,158	-	5,162	-
Construction and land development	1,516	1,605	-	1,526	-
Commercial and industrial	690	724	-	699	-
Consumer and other	-	-	-	-	-
Total	$15,588	$16,259	$ -	$ 16,607	$ -
Cash flow dependent nonaccrual loans:					
Commercial real estate – mortgage	$2,713	$2,773	$ 571	$ 2,901	$ -
Consumer real estate – mortgage	2,464	2,582	852	2,488	-
Construction and land development	283	350	111	297	-
Commercial and industrial	685	1,989	174	1,770	-
Consumer and other	103	128	40	104	-
Total	$6,248	$7,822	$ 1,748	$ 7,560	$ -
Total nonaccrual loans	$21,836	$24,081	$ 1,748	$ 24,167	$ -

Table of Contents

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

	At December 31, 2012			For the year ended December 31, 2012	
	Recorded investment	Unpaid principal balance	Related allowance(1)	Average recorded investment	Interest income recognized
Collateral dependent nonaccrual loans:					
Commercial real estate – mortgage	$ 8,740	$ 11,187	$ -	$ 9,612	$ -
Consumer real estate – mortgage	3,641	6,394	-	5,266	-
Construction and land development	1,546	2,062	-	1,753	-
Commercial and industrial	1,547	1,761	-	2,064	-
Consumer and other	-	-	-	-	-
Total	$ 15,474	$ 21,404	$ -	$ 18,695	$ -
Cash flow dependent nonaccrual loans:					
Commercial real estate – mortgage	$ 551	$ 1,841	$ 154	$ 2,893	$ -
Consumer real estate – mortgage	2,265	4,473	573	4,656	-
Construction and land development	2,963	4,701	201	4,147	-
Commercial and industrial	1,491	2,459	814	2,089	-
Consumer and other	79	179	22	143	-
Total	$ 7,349	$ 13,653	$ 1,764	$ 13,928	$ -
Total nonaccrual loans	$ 22,823	$ 35,057	$ 1,764	$ 32,623	$ -

(1) Collateral dependent loans are typically charged-off to their net realizable value pursuant to requirements of our primary regulators and no specific allowance is carried related to those loans.

Pinnacle Financial's policy is that once a loan is placed on nonaccrual status each subsequent payment is reviewed on a case-by-case basis to determine if the payment should be applied to interest or principal pursuant to regulatory guidelines. Pinnacle Financial recognized no interest income from cash payments received on nonaccrual loans during the three months ended March 31, 2013 or during the year ended December 31, 2012.

Impaired loans also include loans that Pinnacle Bank has elected to formally restructure when, due to the weakening credit status of a borrower, the restructuring may facilitate a repayment plan that seeks to minimize the potential losses that Pinnacle Bank may have to otherwise incur. If on nonaccrual status as of the date of restructuring, the loans are included in nonaccrual loans. Loans that have been restructured that were performing as of the restructure date and continue to perform in accordance with the restructured terms are reported separately as troubled debt restructurings.

At March 31, 2013 and December 31, 2012, there were $20.7 million and $27.5 million, respectively, of troubled debt restructurings that were performing as of their restructure date and which were accruing interest. These troubled debt restructurings are considered impaired loans pursuant to U.S. GAAP. Troubled commercial loans are restructured by specialists within our Special Assets Group, and all restructurings are approved by committees and credit officers separate and apart from the normal loan approval process. These specialists are charged with reducing Pinnacle Financial's overall risk and exposure to loss in the event of a restructuring by obtaining some or all of the following: improved documentation, additional guaranties, increase in curtailments, reduction in collateral release terms, additional collateral or other similar strategies.

Table of Contents

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

The following table outlines the amount of each troubled debt restructuring categorized by loan classification made during the three months ended March 31, 2013 and 2012 (dollars in thousands):

	March 31, 2013			March 31, 2012		
	Number of contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, net of related allowance	Number of contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, net of related allowance
Commercial real estate – mortgage	-	$ -	$ -	-	$ -	$ -
Consumer real estate – mortgage	1	432	359	1	343	288
Construction and land development	-	-	-	-	-	-
Commercial and industrial	-	-	-	1	39	32
Consumer and other	1	200	170	-	-	-
	2	$ 632	$ 529	2	$ 382	$ 320

During the three months ended March 31, 2013, two consumer real estate loans totaling $1.0 million which were previously classified as troubled debt restructurings subsequently defaulted. During the three months ended March 31, 2012, four commercial loans totaling $194,000 and two consumer loans totaling $154,000 which were previously classified as troubled debt restructurings defaulted due to their lack of performance. A default is defined as an occurrence which violates the terms of the receivable's contract.

In addition to the loan metrics above, Pinnacle Financial analyzes its commercial loan portfolio to determine if a concentration of credit risk exists to any industries. Pinnacle Financial utilizes broadly accepted industry classification systems in order to classify borrowers into various industry classifications. Pinnacle Financial has a credit exposure (loans outstanding plus unfunded lines of credit) exceeding 25% of Pinnacle Bank's total risk-based capital to borrowers in the following industries at March 31, 2013 with the comparative exposures for December 31, 2012 (in thousands):

	At March 31, 2013			
	Outstanding Principal Balances	Unfunded Commitments	Total exposure	Total Exposure at December 31, 2012

Lessors of nonresidential buildings	$ 419,148	$ 46,935	$ 466,083	$ 440,237
Lessors of residential buildings	197,042	27,838	224,880	215,899
Land subdividers	87,587	13,797	101,384	108,283

The table below presents past due balances at March 31, 2013 and December 31, 2012, by loan classification and segment allocated between accruing and nonaccrual status (in thousands):

March 31, 2013	30-89 days past due and accruing	90 days or more past due and accruing	Total past due and accruing	Nonaccrual(1)	Current and accruing	Total Loans
Commercial real estate:						
Owner-occupied	$ 1,681	$94	$1,775	$ 7,150	$609,333	$618,258
All other	-	-	-	3,915	656,466	660,381
Consumer real estate – mortgage	1,663	-	1,663	7,494	666,475	675,632
Construction and land development	486	-	486	1,799	304,148	306,433
Commercial and industrial	4,314	-	4,314	1,375	1,397,739	1,403,428
Consumer and other	387	58	445	103	107,684	108,232
	$ 8,531	$152	$8,683	$ 21,836	$3,741,845	$3,772,364

Page 15

Table of Contents

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

December 31, 2012	30-89 days past due and accruing	90 days or more past due and accruing	Total past due and accruing	Nonaccrual(1)	Current and accruing	Total Loans
Commercial real estate:						
Owner-occupied	$ 462	$-	$462	$ 8,091	$ 585,848	$594,401
All other	41	-	41	1,200	582,554	583,795
Consumer real estate – mortgage	3,870	-	3,870	5,906	670,150	679,926
Construction and land development	3,511	-	3,511	4,509	305,532	313,552
Commercial and industrial	2,549	-	2,549	3,038	1,440,991	1,446,578
Consumer and other	444	-	444	79	93,387	93,910
	$ 10,877	$-	$10,877	$ 22,823	$ 3,678,462	$3,712,162

(1) Approximately $6.0 million and $9.4 million of nonaccrual loans as of March 31, 2013 and December 31, 2012, respectively, are currently performing pursuant to their contractual terms.

The following table shows the allowance allocation by loan classification and accrual status at March 31, 2013 and December 31, 2012 (in thousands):

	Impaired Loans							
	Accruing Loans		Nonaccrual Loans		Troubled Debt Restructurings(1)		Total Allowance for Loan Losses	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Commercial real estate –mortgage	$18,582	$ 16,642	$571	$ 154	$2,276	$ 2,838	$21,429	$ 19,634
Consumer real estate – mortgage	7,236	7,336	852	573	692	853	8,780	8,762
Construction and land development	8,871	8,953	111	201	10	10	8,992	9,164
Commercial and industrial	22,548	23,829	174	814	92	95	22,814	24,738
Consumer and other	1,356	1,055	40	22	48	17	1,444	1,094
Unallocated	-	-	-	-	-	-	5,952	6,025
	$58,593	$ 57,815	$1,748	$ 1,764	$3,118	$ 3,813	$69,411	$ 69,417

(1) Troubled debt restructurings of $20.7 million and $27.5 million as of March 31, 2013 and December 31, 2012, respectively, are classified as impaired loans pursuant to U.S. GAAP; however, these loans continue to accrue interest at contractual rates.

The following table details the changes in the allowance for loan losses from December 31, 2011 to December 31, 2012 to March 31, 2013 by loan classification (in thousands):

	Commercial real estate – mortgage	Consumer real estate – mortgage	Construction and land development	Commercial and industrial	Consumer and other	Unallocated	Total
Balances, December 31, 2011	$ 23,397	$ 10,302	$ 12,040	$ 20,789	$ 1,125	$ 6,322	$ 73,975
Charged-off loans	(4,667)	(6,731)	(2,530)	(4,612)	(1,117)	-	(19,657)
Recovery of previously charged-off loans	285	818	1,155	7,175	97	-	9,530
Provision for loan losses	619	4,373	(1,501)	1,386	989	(297)	5,569
Balances, December 31, 2012	$ 19,634	$ 8,762	$ 9,164	$ 24,738	$ 1,094	$ 6,025	$ 69,417
Charged-off loans	(1,513)	(694)	(24)	(1,224)	(103)	-	(3,558)
Recovery of previously charged-off loans	15	466	127	705	67	-	1,380
Provision for loan losses	3,293	246	(275)	(1,405)	386	(73)	2,172
Balances, March 31, 2013	$ 21,429	$ 8,780	$ 8,992	$ 22,814	$ 1,444	$ 5,952	$ 69,411

The adequacy of the allowance for loan losses is assessed at the end of each calendar quarter. The level of the allowance is based upon evaluation of the loan portfolio, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, historical loss experience, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations.

Table of Contents

At March 31, 2013, Pinnacle Financial had granted loans and other extensions of credit amounting to approximately $7.0 million to current directors, executive officers, and their related entities, of which $6.4 million had been drawn upon. At December 31, 2012, Pinnacle Financial had granted loans and other extensions of credit amounting to approximately $8.8 million to directors, executive officers, and their related entities, of which approximately $8.1 million had been drawn upon. These loans and extensions of credit were made on substantially the same terms customary for other persons similarly situated for the type of loan involved. None of these loans to directors, executive officers, and their related entities were impaired at March 31, 2013 or December 31, 2012.

Residential Lending

At March 31, 2013, Pinnacle Financial had approximately $30.3 million of mortgage loans held-for-sale compared to approximately $41.2 million at December 31, 2012. Pinnacle Financial generally has an agreement for the subsequent sale of the mortgage loan prior to the loan being closed with the borrower. Pinnacle Financial sells loans to third-party investors on a loan-by-loan basis and has not entered into any forward commitments with investors for future bulk loan sales. All of these loan sales transfer servicing rights to the buyer. During the three months ended March 31, 2013, Pinnacle Financial recognized $1.8 million in gains on the sale of these loans, net of commissions paid, compared to $1.5 million during the three months ended March 31, 2012.

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

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

From inception of Pinnacle Bank's mortgage department in January 2003 through March 31, 2013, Pinnacle Bank originated and sold approximately 13,650 mortgage loans totaling $3.0 billion to third-party purchasers. Of the approximately 13,650 mortgage loans, Pinnacle Bank underwrote approximately 3,500 conventional loans at an 80% or less loan-to-value that were sold to other investors and underwrote 2,900 loans that were sold to the HUD/VA. The remaining mortgage loans were underwritten by the purchasers of those loans, but funded by Pinnacle Bank until settlement with the purchaser. To date, repurchase activity pursuant to the terms of these representations and warranties has been insignificant to Pinnacle Bank.

Based on information currently available, management believes that it does not have material exposure to losses that may arise relating to the representations and warranties that it has made in connection with its mortgage loan sales.

Due to the focus on foreclosure practices of financial institutions nationwide, Pinnacle Bank has evaluated its foreclosure process related to home equity and consumer mortgage loans within its loan portfolio. At March 31, 2013, Pinnacle Bank has $689.5 million of home equity and consumer mortgage loans which are secured by first or second liens on residential properties. Foreclosure activity in this portfolio has been minimal. Any foreclosures on these loans are handled by designated Pinnacle Bank personnel and external legal counsel, as appropriate, following established policies regarding legal and regulatory requirements. Pinnacle Bank has not imposed any freezes on foreclosures. Based on information currently available, management believes that it does not have material exposure to faulty foreclosure practices.

Note 5. Income Taxes

ASC 740, Income Taxes, defines the threshold for recognizing the benefits of tax return positions in the financial statements as “more-likely-than-not” to be sustained by the taxing authority. As of March 31, 2013, Pinnacle Financial had no unrecognized tax benefits related to Federal or State income tax matters and does not currently anticipate any material increase or decrease in unrecognized tax benefits relative to any tax positions taken prior to March 31, 2013. As of March 31, 2013, Pinnacle Financial has accrued no interest and no penalties related to uncertain tax positions.

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

Pinnacle Financial and its subsidiaries file consolidated U.S Federal and state of Tennessee income tax returns. The IRS concluded its examination of the 2007, 2008, and 2009 federal tax returns during 2011. Pinnacle Financial remains open to audit under the statute of limitations by the IRS for the years ended December 31, 2009 through 2012 and the state of Tennessee for the years ended December 31, 2009 through 2012.

Pinnacle Financial's effective tax rate for the three-month periods ended March 31, 2013 and 2012 of 32.9% and 33.6%, respectively, differ from the Federal income tax statutory rate of 35% and state income tax rate of 6.50% primarily due to our investments in bank qualified municipal securities, our real estate investment trust and bank-owned life insurance offset in part by meals and entertainment expense and executive compensation expense, portions of which are non-deductible.

Note 6. Commitments and Contingent Liabilities

In the normal course of business, Pinnacle Financial has entered into off-balance sheet financial instruments which include commitments to extend credit (i.e., including unfunded lines of credit) and standby letters of credit. Commitments to extend credit are usually the result of lines of credit granted to existing borrowers under agreements that the total outstanding indebtedness will not exceed a specific amount during the term of the indebtedness. Typical borrowers are commercial concerns that use lines of credit to supplement their treasury management functions, thus their total outstanding indebtedness may fluctuate during any time period based on the seasonality of their business and the resultant timing of their cash flows. Other typical lines of credit are related to home equity loans granted to consumers. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At March 31, 2013, these commitments amounted to $1.1 billion.

Standby letters of credit are generally issued on behalf of an applicant (our customer) to a specifically named beneficiary and are the result of a particular business arrangement that exists between the applicant and the beneficiary. Standby letters of credit have fixed expiration dates and are usually for terms of two years or less unless terminated beforehand due to criteria specified in the standby letter of credit. A typical arrangement involves the applicant routinely being indebted to the beneficiary for such items as inventory purchases, insurance, utilities, lease guarantees or other third party commercial transactions. The standby letter of credit would permit the beneficiary to obtain payment from Pinnacle Financial under certain prescribed circumstances. Subsequently, Pinnacle Financial would then seek reimbursement from the applicant pursuant to the terms of the standby letter of credit. At March 31, 2013, these commitments amounted to $68.6 million.

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

The contractual amounts of these commitments are not reflected in the consolidated financial statements and only amounts drawn upon would be reflected in the future. Since many of the commitments are expected to expire without being drawn upon, the contractual amounts do not necessarily represent future cash requirements. However, should the commitments be drawn upon and should our customers default on their resulting obligation to us, Pinnacle Financial's maximum exposure to credit loss, without consideration of collateral, is represented by the contractual amount of those commitments. At March 31, 2013, and December 31, 2012, Pinnacle Financial had accrued $2.9

million and $1.9 million, respectively, for the inherent risks associated with these off balance sheet commitments. At March 31, 2013, approximately $2.0 million was specifically attributable to one standby letter of credit. Subsequent to March 31, 2013, Pinnacle Bank funded the standby letter of credit and recorded a specific allowance in an amount equal to the specific off-balance sheet allowance. Accordingly, the off-balance sheet allowance related to this one credit will be reduced in the second quarter of 2013.

During the fourth quarter of 2011, a customer of Pinnacle Bank filed a putative class action lawsuit (styled John Higgins, et al, v. Pinnacle Financial Partners, Inc., d/b/a Pinnacle National Bank) in Davidson County, Tennessee Circuit Court against Pinnacle Bank and Pinnacle Financial, on his own behalf, as well as on behalf of a purported class of Pinnacle Bank's customers within the State of Tennessee alleging that Pinnacle Bank's method of ordering debit card transactions had caused customers of Pinnacle Bank to incur higher overdraft charges than had a different method been used. In support of his claims, the plaintiff asserts theories of breach of contract, breach of implied covenant of good faith and fair dealing, unjust enrichment of unconscionability. The plaintiff is seeking, among other remedies, an award of unspecified compensatory damages, pre-judgment interest, costs and attorneys' fees. Pinnacle Financial and Pinnacle Bank are vigorously contesting this matter. On January 17, 2012, Pinnacle Financial and Pinnacle Bank filed a motion to dismiss the complaint. The motion to dismiss was granted without prejudice to Pinnacle Financial and denied as to Pinnacle Bank on April 13, 2012, and Pinnacle Bank filed an answer on May 30, 2012. Based on our current knowledge, Pinnacle Financial does not believe that any liability arising from this legal matter will have a material adverse effect on Pinnacle Financial's consolidated financial condition, operating results or cash flows.

Table of Contents

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

Various legal claims also arise from time to time in the normal course of business. In the opinion of management, the resolution of these routine claims outstanding at March 31, 2013 will not have a material impact on Pinnacle Financial's financial statements.

Note 7. Stock Options, Stock Appreciation Rights and Restricted Shares

As described more fully in the Annual Report on Form 10-K, Pinnacle Financial has two equity incentive plans. Additionally, Pinnacle Financial has assumed equity plans in connection with acquisitions of Cavalry Bancorp, Inc. (Cavalry) and Mid-America Bancshares, Inc. (Mid-America) under which it has granted stock options and stock appreciation rights to its employees to purchase common stock at or above the fair market value on the date of grant and granted restricted share awards to employees and directors.

At March 31, 2013, there were approximately 555,000 shares available for future issuances under these plans.

Common Stock Options and Stock Appreciation Rights

As of March 31, 2013, there were approximately 1,195,500 stock options and 7,100 stock appreciation rights outstanding to purchase common shares. A summary of the stock option and stock appreciation rights activity within the equity incentive plans during the three months ended March 31, 2013 and information regarding expected vesting, contractual terms remaining, intrinsic values and other matters is as follows:

	Number	Weighted-Average Exercise Price	Weighted-Average Contractual Remaining Term (in years)	Aggregate Intrinsic Value (000's)	
Outstanding at December 31, 2012	1,318,701	$ 23.36	3.14	$ 2,203	(1)
Granted	-				
Exercised	(88,811)				
Stock appreciation rights exercised	(34)				
Forfeited	(27,258)				
Outstanding at March 31, 2013	1,202,598	$ 24.36	2.98	$ 2,825	(2)
Outstanding and expected to vest as of March 31, 2013	1,202,598	$ 24.36	2.98	$ 2,825	(2)
Options exercisable at March 31, 2013	1,202,598	$ 24.36	2.98	$ 2,825	(2)

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted closing price of Pinnacle Financial common stock of $18.84 per common share at December 31, 2012 for the approximately 331,571 options and stock appreciation rights that were in-the-money at December 31, 2012.

(2) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted closing price of Pinnacle Financial common stock of $23.36 per common share at March 31, 2013 for the approximately 459,871 options and stock appreciation rights that were in-the-money at March 31, 2013.

During the three months ended March 31, 2013, approximately 33,000 option awards vested at an average exercise price of $21.51 with no intrinsic value at the time of vesting.

As of March 31, 2013, there was no unrecognized compensation cost related to unvested stock options granted under our equity incentive plans.

During the three months ended March 31, 2013, Pinnacle Financial recorded stock option compensation expense of $13,000, based on Black-Scholes valuation at the date of grant compared to $154,000 for the three months ended March 31, 2012. For these awards, Pinnacle Financial has recognized compensation expense using a straight-line amortization method. Stock-based compensation expense has been reduced for estimated forfeitures.

Table of Contents

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

Restricted Share Awards

Additionally, Pinnacle Financial's 2004 Plan and the plans assumed in connection with the acquisition of Mid-America provide for the granting of restricted share awards and other performance or market-based awards. There were no market-based awards outstanding as of March 31, 2013 under any of these plans. During the three months ended March 31, 2013, Pinnacle Financial awarded 125,765 shares of restricted common stock to certain associates and outside directors and 193,189 restricted stock units converted to restricted share awards for certain associates.

A summary of activity for unvested restricted share awards for the quarter ended March 31, 2013 is as follows:

	Number	Grant Date Weighted-Average Cost
Unvested at December 31, 2012	739,909	$ 15.45
Shares awarded	125,765	19.91
Conversion of restricted share units to restricted share awards	193,189	21.51
Restrictions lapsed and shares released to associates/directors	(146,564)	16.72
Shares forfeited(1)	(44,409)	15.10
Unvested at March 31, 2013	867,890	$ 16.97

(1) Represents 18,257 shares forfeited due to failure to meet performance targets and 26,152 shares forfeited due to employee termination and/or retirement.

Pinnacle Financial grants restricted share awards to associates, executive management and outside directors with a combination of time and performance vesting criteria. The following table outlines restricted stock grants that were made, grouped by similar vesting criteria, during the three months ended March 31, 2013:

Grant Year	Group(1)	Vesting Period in years	Shares awarded	Restrictions Lapsed and shares released to participants	Shares Forfeited by participants(5)	Shares Unvested
Time Based Awards(2)						
2013	Associates	5	114,475	-	2,025	112,450
Performance Based Awards(3)						
2013	Leadership team	5	193,189	-	-	193,189
Outside Director Awards(4)						
2013	Outside directors	1	11,290	-	-	11,290

(1) Groups include our employees (referred to as associates above) and our outside directors. When the restricted shares are awarded, a participant receives voting rights with respect to the shares, but is not able to transfer the shares until the restrictions have lapsed. Once the restrictions lapse, the participant is taxed on the value of the

award and may elect to sell shares to pay the applicable income taxes associated with the award.

(2) These shares vest in equal annual installments on the anniversary date of the grant.

(3) The forfeiture restrictions on these restricted share awards lapse in separate equal installments should Pinnacle Financial achieve certain earnings and soundness targets over each year of the subsequent vesting period (or alternatively, the cumulative vesting period).

(4) Restricted share awards are issued to the outside members of the board of directors in accordance with their board compensation plan. Restrictions lapse on the one year anniversary date of the award based on each individual board member meeting their attendance goals for the various board and board committee meetings to which each member was scheduled to attend.

(5) These shares represent forfeitures resulting from associate terminations during the three months ended March 31, 2013.

Compensation expense associated with performance-based restricted share awards, which are issued from time-to-time, is recognized over the performance period that the restrictions associated with the awards are anticipated to lapse based on a graded vesting schedule such that each performance tranche is amortized separately. Compensation expense associated with the time-based restricted share awards is recognized on a straight-line basis over the time period that the restrictions associated with the awards lapse based on the total cost of the award at the grant date. For the three months ended March 31, 2013, Pinnacle Financial recognized approximately $951,000 in compensation costs attributable to all restricted share awards, compared to $857,000 for the three months ended March 31, 2012.

Restricted Stock Units

Pinnacle Financial granted 128,018 restricted share units to the senior executive officers and the Leadership Team in the first quarter of 2013. These restricted share units will be converted to restricted shares in 2014 on a tiered scale based on actual 2013 results. The number of units that ultimately convert to unvested restricted shares will be determined after the 2013 earnings are finalized based upon the achievement of certain predetermined profitability goals for 2013 that were established on January 11, 2013 by the Human Resources and Compensation Committee of Pinnacle Financial (HRCC). The number of restricted shares issuable in settlement of these restricted share units could range between 0% to 100% based on the level of 2013 profitability. Once these restricted share units are converted to restricted share awards, the forfeiture restrictions on the number of restricted shares issued in settlement of these restricted share units will lapse in 20% increments over the following five years based on the achievement of soundness thresholds to be set by the HRCC in January of each respective fiscal year. As the specific value of the award that will ultimately be granted to the recipients of these restricted share units and the associated performance targets cannot yet be determined, no grant was deemed to have been made, and therefore, no expense has been recognized related to these awards.

Table of Contents

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

Note 8. Regulatory Matters

Pursuant to Tennessee banking law, Pinnacle Bank may not, without the prior consent of the TDFI, pay any dividends to Pinnacle Financial in a calendar year in excess of the total of Pinnacle Bank's net income for that year plus the retained net income for the preceding two years. During the first quarter of 2013, Pinnacle Bank paid a $1.4 million dividend to Pinnacle Financial. As of March 31, 2013, Pinnacle Bank could pay approximately $72.5 million of additional dividends to Pinnacle Financial without prior TDFI approval. Pinnacle Financial has not paid any cash dividends on its common stock since inception; it is possible the Board of Directors may consider a sustainable dividend program at some point in the future.

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

Quantitative measures established by regulation to ensure capital adequacy require Pinnacle Financial and Pinnacle Bank to maintain minimum amounts and ratios of Total and Tier I capital to risk-weighted assets and for Pinnacle Bank of Tier I capital to average assets. Management believes, as of March 31, 2013, that Pinnacle Financial and Pinnacle Bank met all capital adequacy requirements to which they are subject. To be categorized as well-capitalized under applicable banking regulations, Pinnacle Financial and Pinnacle Bank must maintain minimum Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table and not be subject to a written agreement, order or directive to maintain a higher capital level. Pinnacle Financial's and Pinnacle Bank's actual capital amounts and ratios are presented in the following table (in thousands):

	Actual		Minimum Capital Requirement		Minimum To Be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At March 31, 2013						
Total capital to risk weighted assets:						
Pinnacle Financial	$568,850	13.0 %	$351,067	8.0 %	$440,555	10.0 %
Pinnacle Bank	$560,476	12.8 %	$350,388	8.0 %	$439,717	10.0 %
Tier I capital to risk weighted assets:						
Pinnacle Financial	$513,781	11.7 %	$175,534	4.0 %	$264,333	6.0 %
Pinnacle Bank	$505,511	11.6 %	$175,194	4.0 %	$263,830	6.0 %
Tier I capital to average assets (*):						
Pinnacle Financial	$513,781	10.8 %	$175,534	4.0 %	$264,333	N/A
Pinnacle Bank	$505,511	10.7 %	$175,194	4.0 %	$263,830	5.0 %

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

As noted above, Pinnacle Bank had 10.7% of Tier 1 capital to average assets and 12.8% of total capital to risk-weighted assets at March 31, 2013.

Note 9. Derivative Instruments

Financial derivatives are reported at fair value in other assets or other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated as hedges, the gain or loss is recognized in current earnings. Pinnacle Financial enters into interest rate swaps (swaps) to facilitate customer transactions and meet their financing needs. Upon entering into these instruments to meet customer needs, Pinnacle Financial enters into offsetting positions with a large U.S. financial institution in order to minimize the risk to Pinnacle Financial. These swaps are derivatives, but are not designated as hedging instruments.

Table of Contents

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

Interest rate swap contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. When the fair value of a derivative instrument contract is positive, this generally indicates that the counter party or customer owes Pinnacle Financial, and results in credit risk to Pinnacle Financial. When the fair value of a derivative instrument contract is negative, Pinnacle Financial owes the customer or counterparty and therefore, has no credit risk.

A summary of Pinnacle Financial's interest rate swaps as of March 31, 2013 and December 31, 2012 is included in the following table (in thousands):

	March 31, 2013		December 31, 2012	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Interest rate swap agreements:				
Pay fixed / receive variable swaps	$238,836	$15,709	$236,377	$16,132
Pay variable / receive fixed swaps	238,836	(16,000)	236,377	(16,366)
Total	$477,672	$(291)	$472,754	$(234)

At March 31, 2013 and December 31, 2012, Pinnacle Financial had not entered into any derivative contracts to assist in managing its own interest rate sensitivity and has no derivatives designated as hedges. Subsequent to March 31, 2013, Pinnacle Financial entered into a forward cash flow hedge relationship to manage our future interest rate exposure. The hedging strategy converts the LIBOR based variable interest rate on forecasted borrowings to a fixed interest rate and protects Pinnacle Financial from floating interest rate variability. The terms of the relationship are as follows:

(dollars in thousands)	Forecasted Notional Amount	Variable Interest Rate	Fixed Interest Rate	Term
Interest Rate Swap	$ 33,000	3 month LIBOR	1.428 %	April 2015-April 2017
Interest Rate Swap	33,000	3 month LIBOR	1.857 %	October 2015-March 2019
Interest Rate Swap	33,000	3 month LIBOR	1.996 %	October 2015-October 2019
Interest Rate Swap	33,000	3 month LIBOR	2.265 %	April 2016-April 2020
Interest Rate Swap	34,000	3 month LIBOR	2.646 %	April 2016-April 2022
Interest Rate Swap	34,000	3 month LIBOR	2.523 %	October 2016-October 2020

(1) Pinnacle Financial will pay the fixed interest rate and the counterparties pay Pinnacle Financial the variable rate.
(2) No cash will be exchanged prior to the term.

Note 10. Fair Value of Financial Instruments

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

Valuation Hierarchy

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

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

Table of Contents

- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Assets

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

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

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

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

Other assets – Included in other assets are certain assets carried at fair value, including interest rate swap agreements. The carrying amount of interest rate swap agreements is based on Pinnacle Financial's pricing models that utilize observable market inputs obtained. Pinnacle Financial reflects these assets within Level 2 of the valuation hierarchy as these assets are valued using similar transactions that occur in the market.

Table of Contents

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

Liabilities

Other liabilities – Pinnacle Financial has certain liabilities carried at fair value including certain interest rate swap agreements. The fair value of these liabilities is based on Pinnacle Financial's pricing models that utilize observable market inputs and is reflected within Level 2 of the valuation hierarchy.

The following tables present the financial instruments carried at fair value as of March 31, 2013 and December 31, 2012, by caption on the consolidated balance sheets and by FASB ASC 820 valuation hierarchy (as described above) (in thousands):

March 31, 2013	Total carrying value in the consolidated balance sheet	Quoted market prices in an active market (Level 1)	Models with significant observable market parameters (Level 2)	Models with significant unobservable market parameters (Level 3)
Investment securities available-for-sale:				
U.S. government agency securities	$ 138,244	$ -	$ 138,244	$ -
Mortgage-backed securities	371,857	-	371,857	-
State and municipal securities	145,107	-	145,107	-
Agency-backed securities	17,358	-	17,358	-
Corporate notes and other	10,979	-	10,979	-
Total investment securities available-for-sale	683,545	-	683,545	$ -
Alternative investments	4,663	-	-	4,663
Other assets	16,131	-	15,709	422
Total assets at fair value	$ 704,339	$ -	$ 699,254	$ 5,085
Other liabilities	$ 16,000	$ -	$ 16,000	$ -
Total liabilities at fair value	$ 16,000	$ -	$ 16,000	$ -
December 31, 2012				
Investment securities available-for-sale:				
U.S. government agency securities	$ 110,452	$ -	$ 110,452	$ -
Mortgage-backed securities	375,651	-	375,651	-
State and municipal securities	191,727	-	191,727	-
Agency-backed securities	17,352		17,352	
Corporate notes and other	11,396	-	11,396	-
Total investment securities available-for-sale	706,578	-	706,578	-
Alternative investments	4,214	-	-	4,214
Other assets	16,599	-	16,132	467
Total assets at fair value	$ 727,391	$ -	$ 722,710	$ 4,681
Other liabilities	$ 16,366	$ -	$ 16,366	$ -
Total liabilities at fair value	$ 16,366	$ -	$ 16,366	$ -

March 31, 2013	Total carrying value in the consolidated balance sheet	Quoted market prices in an active market (Level 1)	Models with significant observable market parameters (Level 2)	Models with significant unobservable market parameters (Level 3)	Total gains (losses) for the period ended
Other real estate owned	$ 16,802	$ -	$ -	$ 16,802	$ 218
Nonaccrual loans, net (1)	20,088	-	-	20,088	2,192
Total	$ 36,890	$ -	$ -	$ 36,890	$ 2,410
December 31, 2012					
Other real estate owned	$ 18,580	$ -	$ -	$ 18,580	$ (5,428)
Nonaccrual loans, net (1)	21,059	-	-	21,059	(4,745)
Total	$ 39,639	$ -	$ -	$ 39,639	$ (10,173)

(1) Amount is net of a valuation allowance of $1.7 million at March 31, 2013 and $1.8 million at December 31, 2012 as required by ASC 310-10, “Receivables.”

Table of Contents

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

In the case of the bond portfolio, Pinnacle Financial monitors the valuation techniques utilized by various pricing agencies to ascertain when transfers between levels have been affected. The nature of the remaining assets and liabilities is such that transfers in and out of any level are expected to be rare. For the three months ended March 31, 2013, there were no transfers between Levels 1, 2 or 3.

The table below includes a rollforward of the balance sheet amounts for the three months ended March 31, 2013 (including the change in fair value) for financial instruments classified by Pinnacle Financial within Level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, since Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources), the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology (in thousands):

	For the three months ended March 31,			
	2013		2012	
	Other assets	Other liabilities	Other assets	Other liabilities
Fair value, January 1	$4,681	$-	$3,400	$-
Total realized gains included in income	100	-	115	-
Change in unrealized gains/losses included in other comprehensive income for assets and liabilities still held at March 31	-	-	-	-
Purchases, issuances and settlements, net	304	-	71	-
Transfers out of Level 3	-	-	-	-
Fair value, March 31	$5,085	$-	$3,586	$-
Total realized gains included in income related to financial assets and liabilities still on the consolidated balance sheet at March 31	$100	$-	$115	$-

The following methods and assumptions were used by Pinnacle Financial in estimating its fair value disclosures for financial instruments that are not measured at fair value. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flow models. Those models are significantly affected by the assumptions used, including the discount rates, estimates of future cash flows and borrower creditworthiness. The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2013 and December 31, 2012. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

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

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

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral. For other loans, fair values are estimated using discounted cash flow models, using current market interest rates offered for loans with similar terms to borrowers of similar credit quality. The values derived from the discounted cash flow approach for each of the above portfolios are then further discounted to incorporate credit risk to determine the exit price.

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

Table of Contents

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

Deposits, securities sold under agreements to repurchase, Federal Home Loan Bank of Cincinnati (FHLB) advances, subordinated debt and other borrowings - The carrying amounts of demand deposits, savings deposits, securities sold under agreements to repurchase, floating rate advances from the FHLB, floating rate subordinated debt and other borrowings, and floating rate loans approximate their fair values. Fair values for certificates of deposit, fixed rate advances from the FHLB and fixed rate subordinated debt are estimated using discounted cash flow models, using current market interest rates offered on certificates, advances and other borrowings with similar remaining maturities. For fixed rate subordinated debt, the maturity is assumed to be as of the earliest date that the indebtedness will be repriced.

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

The following table presents the carrying amounts, estimated fair value and placement in the fair value hierarchy of Pinnacle Financial's financial instruments at March 31, 2013 and December 31, 2012. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as non-interest bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

(in thousands) March 31, 2013	Carrying/ Notional Amount	Estimated Fair Value (1)	Quoted market prices in an active market (Level 1)	Models with significant observable market parameters (Level 2)	Models with significant unobservable market parameters (Level 3)
Financial assets:					
Securities held-to-maturity	$40,459	$40,377	$-	$ 40,377	$ -
Loans, net	3,702,952	3,408,914	-	-	3,408,914
Mortgage loans held-for-sale	30,327	30,999	-	30,999	-
Financial liabilities:					
Deposits and securities sold under agreements to repurchase	4,031,994	3,988,176	-	-	3,988,176
Federal Home Loan Bank advances	200,796	200,526	-	-	200,526
Subordinated debt and other borrowings	105,533	80,229	-	-	80,229
Off-balance sheet instruments:					
Commitments to extend credit (2)	1,118,203	2,605	-	-	2,605
Standby letters of credit (3)	68,554	266	-	-	266
December 31, 2012					
Financial assets:					
Securities held-to-maturity	$575	$583	$-	$ 583	$ -

Loans, net	3,642,744	3,358,435	-	-	3,358,435
Mortgage loans held for sale	41,195	42,425	-	42,425	-
Financial liabilities:					
Deposits and securities sold under agreements to repurchase	4,129,855	4,084,314	-	-	4,084,314
Federal Home Loan Bank advances	75,850	76,350	-	-	76,350
Subordinated debt and other borrowings	106,158	83,862	-	-	83,862
Off-balance sheet instruments:					
Commitments to extend credit (2)	1,030,723	1,594	-	-	1,594
Standby letters of credit (3)	74,679	304	-	-	304

Table of Contents

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

---

(1) Estimated fair values are consistent with an exit-price concept. The assumptions used to estimate the fair values are intended to approximate those that a market-participant would realize in a hypothetical orderly transaction.
(2) At the end of each quarter, Pinnacle Financial evaluates the inherent risks of the outstanding off-balance sheet commitments. In making this evaluation, Pinnacle Financial evaluates the credit worthiness of the borrower, the collateral supporting the commitments and any other factors similar to those used to evaluate the inherent risks of our loan portfolio. Additionally, Pinnacle Financial evaluates the probability that the outstanding commitment will eventually become a funded loan. As a result, at March 31, 2013 and December 31, 2012, Pinnacle Financial included in other liabilities $2.9 million and $1.9 million, respectively, representing the inherent risks associated with these off-balance sheet commitments.
(3) At March 31, 2013 and December 31, 2012, the fair value of Pinnacle Financial's standby letters of credit was $266,000 and $304,000, respectively. This amount represents the unamortized fee associated with these standby letters of credit and is included in the consolidated balance sheet of Pinnacle Financial and is believed to approximate fair value. This fair value will decrease over time as the existing standby letters of credit approach their expiration dates.

Note 11. Variable Interest Entities

Under ASC 810, Pinnacle Financial is deemed to be the primary beneficiary and required to consolidate a variable interest entity (VIE) if it has a variable interest in the VIE that provides it with a controlling financial interest. For such purposes, the determination of whether a controlling financial interest exists is based on whether a single party has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. ASC 810 requires continual reconsideration of conclusions reached regarding which interest holder is a VIE's primary beneficiary and disclosures surrounding those VIE's which have not been consolidated. The consolidation methodology provided in this footnote for the quarter ended March 31, 2013, and the year ended December 31, 2012 has been prepared in accordance with ASC 810.

At March 31, 2013, Pinnacle Financial did not have any consolidated VIEs to disclose but did have several nonconsolidated VIEs. As discussed more fully in its Annual Report on Form 10-K for the fiscal year ended December 31, 2012, Pinnacle Financial has the following non-consolidated variable interest entities: low income housing partnerships, trust preferred issuances, accruing restructured commercial loans, and managed discretionary trusts.

The following table summarizes VIE's that are not consolidated by Pinnacle Financial as of March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013		December 31, 2012		
Type	Assets Recognized (maximum loss)	Liability Recognized	Assets Recognized (maximum loss)	Liability Recognized	Balance Sheet Classification
Low income housing partnerships	$5,996	$-	$6,096	$-	Other assets
Trust preferred issuances	N/A	82,476	N/A	82,476	Subordinated debt

Commercial troubled debt restructurings	15,310	-	20,951	-	Loans
Managed discretionary trusts	N/A	N/A	N/A	N/A	N/A

Table of Contents

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

The following is a discussion of our financial condition at March 31, 2013 and December 31, 2012 and our results of operations for the three months ended March 31, 2013 and 2012. 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 three months ended March 31, 2013 was $0.39 compared to $0.21 for the same periods in 2012. At March 31, 2013, loans had increased to $3.772 billion, as compared to $3.712 billion at December 31, 2012, and total deposits decreased to $3.903 billion at March 31, 2013 from $4.015 billion at December 31, 2012.

Results of Operations. Our net interest income increased $3.3 million to $42.8 million for the first quarter of 2013 compared to $39.5 million for the first quarter of 2012. The net interest margin (the ratio of net interest income to average earning assets) for the three months ended March 31, 2013 was 3.90% compared to 3.74% for the same period in 2012.

Our provision for loan losses was $2.2 million for the three month period ended March 31, 2013 compared to $1.0 million for the same period in 2012. The increase in our provisioning expense correlates with the growth in our net loans. Net charge-offs were $2.2 million for the three month period ended March 31, 2013, compared to $3.6 million for the same period in the prior year. Our allowance for loan losses as a percentage of total loans decreased from 1.87% at December 31, 2012 to 1.84% at March 31, 2013, as a result of improving credit metrics within our loan portfolio.

Noninterest income increased by $2.0 million during the three months ended March 31, 2013, compared to the same period in the prior year. This increase is primarily attributable to continued growth in our fee businesses as well as increases in other noninterest income. Included in other noninterest income are miscellaneous consumer fees, such as ATM revenues, other consumer fees (primarily interchange) and interest rate swap fee transactions for commercial borrowers.

Noninterest expense decreased by $3.4 million during the three months ended March 31, 2013, as compared to the three month period ended March 31, 2012. Costs associated with the disposal and maintenance of other real estate owned decreased by $4.0 million during the three months ended March 31, 2013, when compared to the same periods in 2012. However, costs associated with other noninterest expense increased by $823,000 during the three months ended March 31, 2013, when compared to the same periods in 2012. The additional noninterest expense was largely attributable to costs incurred as part of our restructuring our FHLB advances.

During the three months ended March 31, 2013, Pinnacle Financial recorded income tax expense of $6.6 million. Pinnacle Financial's effective tax rate for the three months ended March 31, 2013 and 2012 of 32.9% and 33.6%, respectively, differs from the combined federal and state income tax statutory rate primarily due to investments in bank qualified municipal securities, our real estate investment trust, and bank owned life insurance offset in part by meals and entertainment expense and executive compensation, portions of which are non-deductible.

Our efficiency ratio (the ratio of noninterest expense to the sum of net interest income and noninterest income) was 59.4% for the three month period ended March 31, 2013, compared to 72.4% for the same period in 2012.

Net income available to common stockholders for the three months ended March 31, 2013 was $13.4 million compared to net income available to common stockholders of $7.2 million for the same period in 2012. As a result of the redemption of all of the remaining preferred shares originally issued to the Treasury during the second quarter of 2012, net income available to common stockholders for the three months ended March 31, 2013 did not reflect any charge related to preferred stock dividends and accretion of the preferred stock discount related to our participation in the CPP compared to the charge of $1.2 million for the same prior year period.

Financial Condition. Net loans increased $60.2 million during the first three months of 2013. Total deposits were $3.903 billion at March 31, 2013, compared to $4.015 billion at December 31, 2012, a decrease of $112.3 million, or 2.8%. However, average deposit balances increased by $352.5 million for the first quarter of 2013 as compared to the first quarter of 2012.

Table of Contents

Capital and Liquidity. At March 31, 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. At March 31, 2013, we had approximately $15.5 million of cash at the holding company which could be used to support our bank. Although we do not anticipate our bank needing any additional capital from us currently, 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. GAAP and with general practices within the banking industry. There have been no significant changes to our Critical Accounting Policies as described in our Annual Report on Form 10-K for the year ended December 31, 2012.

Results of Operations

The following is a summary of our results of operations (in thousands):

	Three months ended March 31		2013-2012 Percent Increase (Decrease)
	2013	2012	
Interest income	$ 47,156	$ 45,824	2.9 %
Interest expense	4,398	6,320	(30.4 %)
Net interest income	42,758	39,504	8.2 %
Provision for loan losses	2,172	1,034	110.1 %
Net interest income after provision for loan losses	40,586	38,470	5.5 %
Noninterest income	11,902	9,949	19.6 %
Noninterest expense	32,440	35,820	(9.4 %)
Net income before income taxes	20,048	12,599	59.1 %
Income tax expense	6,600	4,234	55.9 %
Net income	13,448	8,365	60.8 %
Preferred dividends and discount accretion	-	1,159	(100.0 %)
Net income available to common stockholders	$ 13,448	$ 7,206	86.6 %
Basic net income per common share available to common stockholders	$ 0.40	$ 0.21	90.5 %
Diluted net income per common share available to common stockholders	$ 0.39	$ 0.21	85.7 %

Net Interest Income. Net interest income represents the amount by which interest earned on various earning assets exceeds interest paid on deposits and other interest bearing liabilities and is the most significant component of our revenues. Net interest income totaled $40.6 million for the three months ended March 31, 2013, an increase of $2.1 million from the levels recorded in the same period of 2012. We were able to increase net interest income for the first quarter of 2013 compared to the same period in 2012 due primarily to our focus on growing our loan portfolio and reducing our funding costs.

Table of Contents

The following tables set forth the amount of our average balances, interest income or interest expense for each category of interest-earning assets and interest-bearing liabilities and the average interest rate for interest-earning assets and interest-bearing liabilities, net interest spread and net interest margin for the three and nine months ended March 31, 2013 and 2012 (in thousands):

	Three months ended March 31, 2013			Three months ended March 31, 2012		
	Average Balances	Interest	Rates/ Yields	Average Balances	Interest	Rates/ Yields
Interest-earning assets:						
Loans (1)	$ 3,681,686	$ 41,514	4.58 %	$ 3,280,030	$ 38,638	4.74 %
Securities:						
Taxable	537,951	3,671	2.77 %	688,645	4,929	2.88 %
Tax-exempt (2)	176,153	1,656	5.09 %	186,864	1,703	4.90 %
Federal funds sold and other	117,483	315	1.25 %	161,434	554	1.50 %
Total interest-earning assets	4,513,273	$ 47,156	4.30 %	4,316,973	$ 45,824	4.33 %
Nonearning assets						
Intangible assets	248,940			251,668		
Other nonearning assets	229,805			252,310		
Total assets	$ 4,992,018			$ 4,820,951		
Interest-bearing liabilities:						
Interest bearing deposits:						
Interest checking	$ 775,136	$ 606	0.32 %	$ 664,869	$ 824	0.50 %
Savings and money market	1,632,715	1,624	0.40 %	1,541,559	2,142	