PINNACLE FINANCIAL PARTNERS INC
Form 10-K
February 28, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________

Commission File Number: 000-31225
, Inc.
(Exact name of registrant as specified in charter)

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

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

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

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 the definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x	Accelerated Filer o
Non-accelerated Filer o	Smaller reporting company o
	Emerging growth company o

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity as of the last business day of the registrant's most recently completed second fiscal quarter: $4,632,460,322 as of June 30, 2018.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 77,531,750 shares of common stock as of February 26, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the Annual Meeting of Shareholders, scheduled to be held April 16, 2019, are incorporated by reference into Part III of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

All statements, other than statements of historical fact, included in this Annual Report on Form 10-K, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Exchange Act. The words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" and similar expressions are intended to identify such forward-looking statements, but other statements not based on historical information may also be considered forward-looking statements. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from the statements, including, but not limited to: (i) deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses; (ii) continuation of the historically low short-term interest rate environment; (iii) the inability of Pinnacle Financial, or entities in which it has significant investments, like Bankers Healthcare Group, LLC ("BHG"), to maintain the historical growth rate of its, or such entities', loan portfolio; (iv) changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments; (v) effectiveness of Pinnacle Financial's asset management activities in improving, resolving or liquidating lower-quality assets; (vi) the impact of competition with other financial institutions, including pricing pressures and the resulting impact on Pinnacle Financial’s results, including as a result of compression to net interest margin; (vii) greater than anticipated adverse conditions in the national or local economies including in Pinnacle Financial's markets throughout Tennessee, North Carolina, South Carolina and Virginia, particularly in commercial and residential real estate markets; (viii) fluctuations or unanticipated changes in interest rates on loans or deposits or that affect the yield curve; (ix) the results of regulatory examinations; (x) the ability to retain large, uninsured deposits; (xi) a merger or acquisition; (xii) risks of expansion into new geographic or product markets; (xiii) any matter that would cause Pinnacle Financial to conclude that there was impairment of any asset, including intangible assets; (xiv) reduced ability to attract additional financial advisors (or failure of such advisors to cause their clients to switch to Pinnacle Bank), to retain financial advisors (including as a result of the competitive environment for associates) or otherwise to attract customers from other financial institutions; (xv) further deterioration in the valuation of other real estate owned and increased expenses associated therewith; (xvi) inability to comply with regulatory capital requirements, including those resulting from changes to capital calculation methodologies, required capital maintenance levels or regulatory requests or directives, particularly if Pinnacle Financial's level of applicable commercial real estate loans were to exceed percentage levels of total capital in guidelines recommended by its regulators; (xvii) approval of the declaration of any dividend by Pinnacle Financial's board of directors; (xviii) the vulnerability of Pinnacle Bank's network and online banking portals, and the systems of parties with whom Pinnacle Financial contracts, to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches; (xix) the possibility of increased compliance costs as a result of increased regulatory oversight, including oversight by the Consumer Financial Protection Bureau, oversight of companies in which Pinnacle Financial or Pinnacle Bank have significant investments, like BHG, and the development of additional banking products for Pinnacle Bank's corporate and consumer clients; (xx) the risks associated with Pinnacle Financial and Pinnacle Bank being a minority investor in BHG, including the risk that the owners of a majority of the equity interests in BHG decide to sell the company if not prohibited from doing so by Pinnacle Financial or Pinnacle Bank; (xxi) changes in state and federal legislation, regulations or policies applicable to banks and other financial service providers, like BHG, including regulatory or legislative developments; (xxii) the availability and access to capital; (xxiii) adverse results (including costs, fines, reputational harm, inability to obtain necessary approvals and/or other negative effects) from current or future litigation, regulatory examinations or other legal and/or regulatory actions; and (xxiv) general competitive, economic, political and market conditions. A more detailed description of these and other risks is contained in "Item 1A. Risk Factors" below. Many of such factors are beyond Pinnacle Financial's ability to control or predict, and readers are cautioned not to put undue reliance on such forward-looking statements. Pinnacle Financial disclaims any obligation to update or revise any forward-looking statements contained in this release, whether as a result of new information, future events or otherwise.

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PART I

Unless this Form 10-K indicates otherwise or the context otherwise requires, the terms "we," "our," "us," "the firm," "Pinnacle Financial Partners," "Pinnacle" or "Pinnacle Financial" as used herein refer to Pinnacle Financial Partners, Inc., and its subsidiaries, including Pinnacle Bank, which we sometimes refer to as "our bank subsidiary" or "our bank" and its other subsidiaries. References herein to the fiscal years 2014, 2015, 2016, 2017 and 2018 mean our fiscal years ended December 31, 2014, 2015, 2016, 2017 and 2018, respectively.

ITEM 1. BUSINESS

OVERVIEW

Pinnacle Financial Partners is a bank holding company headquartered in Tennessee, with approximately $25.0 billion in total assets as of December 31, 2018. The holding company is the parent company of Pinnacle Bank, a Tennessee state-chartered bank, and owns 100% of the capital stock of Pinnacle Bank. The firm started operations on October 27, 2000, in Nashville, Tennessee, and has since grown through a combination of acquisitions and organic growth to 114 offices, including 47 in Tennessee, 38 in North Carolina, 21 in South Carolina and eight in Virginia.

The firm operates as a community bank in 11 primarily urban markets and their surrounding communities. As an urban community bank, Pinnacle provides the personalized service most often associated with smaller banks while offering many of the sophisticated products and services, such as investments and treasury management, more typically found at much larger banks. This approach has enabled Pinnacle Bank to attract clients from the regional and national banks in all its markets. As a result, Pinnacle Bank has grown steadily in market share rankings in many of its markets, according to the 2018 FDIC Summary of Deposits data.

The FDIC Summary of Deposits data as of June 30, 2018 is as follows:

Metropolitan Statistical Area (MSA)	Deposit Rank	PNFP Deposit Market Share
Nashville-Davidson-Murfreesboro-Franklin, TN	1	14.7%
Knoxville, TN	5	7.9%
Chattanooga, TN-GA	4	7.1%
Memphis, TN-MS-AR	6	3.2%
Greensboro-High Point, NC	3	11.4%
Charlotte-Concord-Gastonia, NC-SC	9	0.4%
Raleigh, NC	14	1.1%
Charleston-North Charleston, SC	8	4.1%
Greenville-Anderson-Mauldin, SC	14	1.3%
Roanoke, VA	5	7.3%
Winston-Salem, NC	3	2.8%

ACQUISITIONS

In July 2015, Pinnacle Financial completed the acquisition of CapitalMark Bank & Trust ("CapitalMark") for approximately $19.7 million in cash (including payments related to fractional shares) and 3,306,184 shares of Pinnacle Financial's common stock valued at approximately $175.5 million. All of CapitalMark's outstanding stock options vested upon consummation of the CapitalMark acquisition and were converted into options to purchase shares of Pinnacle Financial's common stock at the common stock exchange rate for the merger. The fair market value of stock options assumed was approximately $30.4 million. The CapitalMark merger increased our presence in the Knoxville MSA and expanded our operations into the Chattanooga MSA and surrounding counties.

In September 2015, Pinnacle Financial completed the acquisition of Magna Bank ("Magna Bank") for an aggregate of $19.5 million in cash (including payments related to fractional shares) and 1,371,717 shares of Pinnacle Financial's common stock valued at approximately $63.5 million. Additionally, at the time of the merger there were 139,417 unexercised stock options that were exchanged for cash equal to $14.32 less the option's exercise price. This consideration totaled approximately $847,000, including all applicable payroll taxes. The Magna merger expanded our operations into the Memphis MSA.

In July 2016, Pinnacle Financial completed the acquisition of Avenue Financial Holdings, Inc. ("Avenue") for an aggregate of $20.9 million in cash (including payments related to fractional shares) and 3,760,326 shares of Pinnacle Financial's common stock valued at approximately $182.5 million. Additionally, at the time of merger there were 257,639 unexercised stock options that were exchanged for cash equal to $20.00 per share less the option's exercise price. This consideration totaled approximately $987,000, including all applicable payroll taxes. The Avenue merger increased our presence in the Nashville MSA.

In June 2017, Pinnacle Financial completed the acquisition of BNC Bancorp ("BNC") for an aggregate of 27,687,100 shares of Pinnacle Financial's common stock valued at $1.9 billion and approximately $129,000 in cash (related to fractional shares). Included in the shares of common stock issued were 136,890 shares of unvested restricted stock that Pinnacle Financial assumed and which are continuing to vest over their original contractual terms. The fair value of these awards was $9.2 million, with $5.4 million attributable to services provided by the recipients prior to the merger, that accordingly was included as merger consideration. This acquisition expanded our operations into the Carolinas and Virginia.

In February 2015, Pinnacle Bank acquired a 30% membership interest in Bankers Healthcare Group, LLC ("BHG"), a company which primarily is engaged in the business of making term loans to healthcare practices, for $75 million in cash. On March 1, 2016, Pinnacle Financial and Pinnacle Bank entered into an agreement to acquire 8.55% and 10.45%, respectively, of the outstanding membership interests in BHG for $114.0 million, payable in a mix of cash and stock consideration. The cash consideration was $74.1 million and the stock consideration was 860,470 shares of Pinnacle Financial's common stock, with a fair value of $39.9 million on the date of acquisition.

On March 1, 2016, Pinnacle Financial, Pinnacle Bank and the other members of BHG entered into an Amended and Restated Limited Liability Company Agreement of BHG that provides for, among other things, the following terms: (i) the inability of any member of BHG to transfer its ownership interest in BHG without the consent of the other members of BHG until March 1, 2021, other than transfers to family members, trusts or affiliates of the transferring member, in connection with the acquisition of Pinnacle Financial or Pinnacle Bank or as a result of a change in applicable law that forces Pinnacle Financial and/or Pinnacle Bank to divest their ownership interests in BHG; (ii) the inability of the board of managers of BHG (of which Pinnacle Financial and Pinnacle Bank have two of the five members (the "Pinnacle Managers")) to approve a sale of BHG until March 1, 2020 without the consent of one of the Pinnacle Managers; (iii) co-sale rights for Pinnacle Financial and Pinnacle Bank in the event the other members of BHG decide to sell all or a portion of their ownership interests after March 1, 2021; and (iv) a right of first refusal for BHG and the other members of BHG in the event that Pinnacle Financial and/or Pinnacle Bank were to sell all or a portion of their ownership interests after March 1, 2021, except in connection with a transfer of their ownership interests to an affiliate or in connection with the acquisition of Pinnacle Financial or Pinnacle Bank.

PRODUCTS AND SERVICES

Lending Services

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

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

Pinnacle Bank's lending activities are subject to a variety of lending limits imposed by federal and state law. Differing limits apply based on the type of loan or the nature of the borrower, including the borrower's relationship to Pinnacle

Bank. In general, however, at December 31, 2018, we were able to loan any one borrower a maximum amount equal to approximately $364.9 million, for loans that meet certain additional collateral guidelines. These legal limits will increase or decrease as Pinnacle Bank's capital increases or decreases as a result of its earnings or losses, the injection of additional capital, payments of dividends, acquisitions, or for other reasons. Pinnacle Bank has internal loan limits ranging from $15 million to $60 million, dependent upon the internal risk rating of a loan, all of which limits are well below the legal lending limit of the bank. All relationships in excess of their limit were each approved by the executive committee of the board of directors or the full board of directors. Pinnacle Bank currently has 39 relationships in excess of the $60 million internal loan limit.

The principal economic risk associated with each category of loans that Pinnacle Bank has made or may in the future make is the creditworthiness of the borrower. General economic factors affecting a commercial or consumer borrower's ability to repay include interest, inflation and unemployment rates, as well as other factors affecting a borrower's assets, clients, suppliers and employees. Many of Pinnacle Bank's commercial loans are made to small- to medium-sized businesses that are sometimes less able to withstand competitive, economic and financial pressures than larger borrowers. During periods of economic weakness these businesses may be more adversely affected than other enterprises and may cause increased levels of nonaccrual or other problem loans, loan charge-offs and higher provision for loan losses.

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

Pinnacle Bank also makes a variety of loans to individuals for personal, family, investment and household purposes, including secured and unsecured installment and term loans and lines of credit, residential first mortgage loans, home equity loans and home equity lines of credit. We also offer credit cards for consumers and businesses directly as well as through the marketing efforts of BHG.

Deposit Services

Pinnacle Bank seeks to establish a broad base of core deposits, including savings, checking, noninterest-bearing checking, interest-bearing checking, money market and certificate of deposit accounts, including access to products offered through various CDARS programs. Rates paid on such deposits vary among banking markets and deposit categories due to different terms and conditions, individual deposit size, services rendered and rates paid by competitors on similar deposit products. We act as a depository for a number of state and local governments and government agencies or instrumentalities. Such public fund deposits are often subject to competitive bid and in many cases must be secured by pledging a portion of our investment securities or a letter of credit.

To attract deposits, Pinnacle Bank has typically employed a marketing plan in its current geographic markets primarily based on relationship banking and features a broad product line and competitive rates and services. The primary sources of deposits are individuals and businesses located in those geographic markets. Pinnacle Bank traditionally has obtained these deposits primarily through personal solicitation by its officers and directors, although its use of media advertising has increased in recent years, primarily due to its advertising and banking sponsorships with the Tennessee Titans NFL football team and the Memphis Grizzlies NBA basketball team.

Pinnacle Bank also offers its targeted commercial clients a comprehensive array of treasury management services as well as remote deposit services, which allow electronic deposits to be made from the client's place of business. Our treasury management services include, among other products, online wire origination, enhanced ACH origination services, positive pay, zero balance and sweep accounts, automated bill pay services, electronic receivables processing, lockbox processing, merchant card acceptance services, small business and commercial credit cards, and corporate purchasing cards.

Investment, Trust and Insurance Services

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

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

Pinnacle Bank also maintains a trust department which provides fiduciary and investment management services for individual and commercial clients. Account types include personal trust, endowments, foundations, individual retirement accounts, pensions and custody.

Additionally, Pinnacle Wealth Advisors and Pinnacle Advisory Services, Inc., registered investment advisors, provide investment advisory services to its clients and Miller Loughry Beach Insurance Services, Inc. and HPB Insurance Group, Inc., each insurance agency subsidiaries of Pinnacle Bank, provide insurance products, particularly in the property and casualty area, to their respective clients.

M&A Advisory and Securities Offering Services

During 2015, we formed PNFP Capital Markets, a registered broker dealer that partners with our financial advisors to offer corporate clients merger and acquisition advisory services, private debt, equity and mezzanine placement services, interest rate derivatives and other selected middle-market advisory services.

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Other Banking Services

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

Competitive Conditions

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and have more financial resources than we do. Such competitors primarily include national, regional, and internet banks within the various markets in which we operate though we also compete with smaller community banks that seek to offer service levels similar to ours. We also face competition from many others types of institutions, including, without limitation, savings and loans associations, credit unions, finance companies, brokerage firms, insurance companies, and other financial intermediaries.

The financial services industry is becoming even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms, and insurance companies can operate as affiliates under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting), and merchant banking. Also, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our non-bank competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can. Finally, our competitors may choose to offer lower interest rates and pay higher deposit rates than we do.

We believe that the most important criteria to our bank's targeted clients when selecting a bank is their desire to receive exceptional and personal customer service while being able to enjoy convenient access to a broad array of financial products. Additionally, when presented with a choice, we believe that many of our bank's targeted clients would prefer to deal with an institution that favors local decision making as opposed to where many important decisions regarding a client's financial affairs are made outside of the local community.

Employees

As of December 31, 2018, we employed 2,297.0 full-time equivalent associates. We believe these associates are Pinnacle's most important asset and we strive to create a culture where associates are engaged and excited to come to work. All associates joining Pinnacle, including those joining as a result of an acquisition, participate in a three-day orientation that focuses on our culture. Our employee focused culture is supported by the fact that consulting firm Great Place to Work and FORTUNE magazine recognized us as one of the 100 Best Companies to Work For in 2017 and 2018. Prior to this eligibility, these organizations named us among best workplaces in the United States on their Best Small & Medium Workplaces list in 2012, 2013 and 2014. American Banker also recognized Pinnacle Bank as one of the top six "Best Banks to Work For" in the country in 2013, 2014, 2015, 2016, 2017 and 2018. Additionally, we were inducted into the Nashville Business Journal's "Best Places to Work" Hall of Fame in 2013 after winning the award for 10 consecutive years. We were also awarded the “Best Place to Work” among mid-sized companies by the Memphis Business Journal in 2015, 2017 and 2018. And we were named a Top Workplace among mid-sized companies by the Knoxville News Sentinel in 2017 and 2018. All of these awards place heavy emphasis on anonymous surveys of associates in the judging criteria. These awards illustrate that our culture is strong, and our financial returns illustrate that our focus on culture is a winning business strategy.

None of our employees are represented by a union, collective bargaining agreement or similar arrangement, and we have not experienced any labor disputes or strikes arising from any organized labor groups. We believe our employee relations are good.

OTHER INFORMATION

Investment Securities

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

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Asset and Liability Management

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

Available Information

We file reports with the Securities and Exchange Commission ("SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The SEC maintains an Internet site at www.sec.gov that contains the reports, proxy and information statements, and other information we have filed or furnished with the SEC.

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

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

SUPERVISION AND REGULATION

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

Pinnacle Financial

Pinnacle Financial is a bank holding company under the federal Bank Holding Company Act of 1956 that has elected to become a "financial holding company" thereunder. As a result, it is subject to the supervision, examination, and reporting requirements of the Bank Holding Company Act and the regulations of the Board of Governors of the Federal Reserve System ("Federal Reserve").

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

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Acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank's voting shares;

- Acquiring all or substantially all of the assets of any bank; or
- Subject to certain exemptions, merging or consolidating with any other bank holding company.

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

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

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

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

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

Permitted Activities. Bank holding companies generally are prohibited, except in certain statutorily prescribed instances including exceptions for financial holding companies, from acquiring direct or indirect ownership or control of 5% or more of any class of the outstanding voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or furnishing services to its subsidiaries. However, subject to prior notice or Federal Reserve approval, bank holding companies may engage in, or acquire shares of companies engaged in, activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. The Gramm-Leach-Bliley Act of 1999 amended the Bank Holding Company Act and expanded the activities in which bank holding companies and affiliates of banks are permitted to engage. The Gramm-Leach-Bliley Act eliminated many federal and state law barriers to affiliations among banks and securities firms, insurance companies, and other financial service providers, and provided that holding companies which elected to become financial holding companies, as Pinnacle Financial has done, could engage in activities that are:

- Financial in nature;
- Incidental to a financial activity (as determined by the Federal Reserve in consultation with the Secretary of the U.S. Treasury); or
- Complementary to a financial activity and do not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally (as determined by the Federal Reserve).

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

- Lending, trust and other banking activities;
- Insuring, guaranteeing, or indemnifying against loss or harm, or providing and issuing annuities, and acting as principal, agent, or broker for these purposes, in any state;
- Providing financial, investment, or advisory services;
- Issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly;
- Underwriting, dealing in or making a market in securities;
-

Activities that the Federal Reserve has determined to be so closely related to banking or managing or controlling banks as to be a proper incident to banking or managing or controlling banks;

- Activities permitted outside of the United States that the Federal Reserve has determined to be usual in connection with banking or other financial operations abroad;
- Merchant banking, including through securities or insurance affiliates; and
- Insurance company portfolio investments.

The Gramm-Leach-Bliley Act also authorizes the Federal Reserve, in consultation with the Secretary of the U.S. Treasury, to determine activities in addition to those listed above that are financial in nature or incidental or complementary to such financial activity. In determining whether a particular activity is financial in nature or incidental or complementary to a financial activity, the Federal Reserve must consider (1) the purpose of the Bank Holding Company Act and the Gramm-Leach-Bliley Act, (2) changes or reasonably expected changes in the marketplace in which financial holding companies compete and in the technology for delivering financial services, and (3) whether the activity is necessary or appropriate to allow financial holding companies to effectively compete with other financial service providers and to efficiently deliver information and services. Pinnacle Financial became a financial holding company effective as of February 17, 2016.

To maintain financial holding company status, a financial holding company and all of its depository institution subsidiaries must be "well capitalized" and "well managed" and, except in limited circumstances, in satisfactory compliance with the Community Reinvestment Act. A depository institution subsidiary is considered to be "well capitalized" if it satisfies the requirements for this status discussed in the section captioned "Capital Adequacy" below. A depository institution subsidiary is considered "well managed" if it received a composite rating and management rating of at least "satisfactory" in its most recent examination. A financial holding company's status will also depend upon it maintaining its status as "well capitalized" and "well managed" under applicable Federal Reserve regulations. If a financial holding company ceases to meet these capital and management requirements, the Federal Reserve's regulations provide that the financial holding company must enter into an agreement with the Federal Reserve to comply with all applicable capital and management requirements. Until the financial holding company returns to compliance, the Federal Reserve may impose limitations or conditions on the conduct of its activities, and the company may not commence any of the broader financial activities permissible for financial holding companies or acquire a company engaged in such financial activities without prior approval of the Federal Reserve. If the company does not return to compliance within 180 days, the Federal Reserve may require divestiture of the holding company's depository institutions or alternatively the holding company may be required to cease to engage in the activities that it is engaged in that a bank holding company is not permitted to engage in without being a financial holding company.

In order for a financial holding company to commence any new activity permitted by the Bank Holding Company Act or to acquire a company engaged in any new activity permitted by the Bank Holding Company Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least "satisfactory" in its most recent examination under the Community Reinvestment Act.

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

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

Pinnacle Bank

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

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

FDIC Insurance. Deposits in Pinnacle Bank are insured by the FDIC up to $250,000 subject to applicable limitations. To offset the cost of this insurance, the FDIC has adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of an insured depository institution’s assets and liabilities. An institution’s assessment rate depends on the category to which it is assigned and certain adjustments specified by the FDIC, with less risky institutions paying lower assessments. Under the Dodd-Frank Act, the FDIC has adopted regulations that base deposit insurance assessments on total assets less capital rather than deposit liabilities and include off-balance sheet liabilities of institutions and their affiliates in risk-based assessments. After an institution's average assets exceed $10 billion over four quarters as ours have, the assessment rate increases compared to institutions at lower average asset levels. In addition, the FDIC retains the authority to further increase Pinnacle Bank’s assessment rates and the FDIC has established a higher reserve ratio of 2% as a long-term goal which goes beyond what is required by statute.

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Continued increases in our FDIC insurance premiums could have an adverse effect on Pinnacle Bank’s and Pinnacle Financial’s results of operations.

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

General Enforcement Authority of Regulators

Bank holding companies (including those that have elected to be financial holding companies) and insured banks also may be subject to potential enforcement actions of varying levels of severity by the federal regulators for unsafe or unsound practices in conducting their business, or for violation of any law, rule, regulation, condition imposed in writing by any applicable agency or term of a written agreement with that agency. In more serious cases, enforcement actions may include the issuance of directives to increase capital; the issuance of formal and informal agreements; the imposition of civil monetary penalties; the issuance of a cease and desist order that can be judicially enforced; the issuance of removal and prohibition orders against officers, directors, and other institution-affiliated parties; the termination of the bank’s deposit insurance; the appointment of a conservator or receiver for the bank; and the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

Capital Adequacy

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

The Dodd-Frank Act contains a number of provisions dealing with capital adequacy of insured depository institutions and their holding companies, and for the most part these provisions have resulted in insured depository institutions and their holding companies being subject to more stringent capital requirements than before passage of the act. Under the Dodd-Frank Act, federal regulators have established minimum Tier 1 leverage and risk-based capital requirements for, among other entities, banks and bank holding companies on a consolidated basis. These minimum requirements require that a bank holding company maintain a ratio of Tier 1 capital to average assets, less goodwill, other intangible assets and other required deductions ("Tier 1 leverage ratio") of not less than 4% and a total capital ratio of not less than 8%.

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

Under these rules, the leverage and risk-based capital ratios of bank holding companies may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The final capital rules implementing Basel III include minimum risk-based capital and leverage ratios for banks and their holding companies. Moreover, these rules refined the definition of what constitutes "capital" for purposes of calculating those ratios, including the definitions of Tier 1 capital and Tier 2 capital. Total capital consists of two components, Tier 1 capital and Tier 2 capital. Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings, minority interests in the equity accounts of consolidated subsidiaries and noncumulative perpetual preferred stock and related surplus, less goodwill and other specified intangible assets and other regulatory deductions. A portion of Pinnacle Financial's and Pinnacle Bank's recorded investment in BHG, which as a minority interest in an unconsolidated entity, is subject to specified deductions. Tier 2 capital generally consists of perpetual preferred stock and related surplus not meeting the Tier 1 capital definition, qualifying subordinated debt, qualifying mandatorily convertible debt securities, and a limited amount of loan loss reserves. The Dodd-Frank Act also excludes trust preferred securities issued after May 19, 2010 from being included in Tier 1 capital unless the issuing company is a bank holding company with less than $500 million in total assets. Trust preferred securities issued prior to that date will continue to count as Tier 1 capital for bank holding companies with less than $15.0 billion in total assets on that date unless the company's assets thereafter exceed $15.0 billion as a result of a merger or acquisition. The trust preferred securities issued by Pinnacle Financial or entities it has acquired previously qualified as Tier 1 capital, but no longer qualify as Tier 1 capital under the Dodd-Frank Act and Basel III as a result of our total assets exceeding

$15.0 billion as a result of the BNC merger. For a bank holding company to be considered "well-capitalized," it must maintain a Tier 1 capital ratio of at least 8%, a total capital ratio of at least 10%, and not be subject to a written agreement, order or directive to maintain a specific capital level.

The minimum capital level requirements applicable to bank holding companies and banks subject to the federal regulators' capital rules are: (i) a Tier 1 common equity (“CET1”) capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6%; (iii) a total risk-based capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4% for all institutions. The rules also established a "capital conservation buffer" of 2.5% (to consist of CET1 capital and that was phased in over three years) above the regulatory minimum capital ratios, that has resulted in the following minimum ratios: (i) a CET1 capital ratio of 7%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The phase-in of the capital conservation buffer requirement was fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if capital levels fall below minimum levels plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Under the Basel III capital rules, CET1 consists of common stock and paid in capital and retained earnings. CET1 is reduced by goodwill, certain intangible assets, net of associated deferred tax liabilities, deferred tax assets that arise from tax credit and net operating loss carryforwards, net of any valuation allowance, and certain other items specified in the Basel III capital rules. The Basel III capital rules also provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

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

Pinnacle Financial must qualify as "well capitalized," among other requirements, in order for it to engage in certain acquisitions or be eligible for expedited treatment of certain regulatory applications, including those related to mergers and acquisitions. For Pinnacle Financial to qualify as "well capitalized," for these purposes it must have a Tier 1 risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10% and not be subject to a written agreement, order or directive to maintain a specific capital level.

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

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

Under FDIC regulations, a state regulated bank which is not a member of the Federal Reserve (a state non-member bank) like Pinnacle Bank is "well capitalized" if it has a Tier 1 leverage ratio of 5% or better, a CET1 capital ratio of 6.5% or better, a Tier 1 risk-based capital ratio of 8% or better, a total risk-based capital ratio of 10% or better, and is not subject to a regulatory agreement, order or directive to maintain a specific level for any capital measure. A state non-member bank is considered "adequately capitalized" if it has a Tier 1 leverage ratio of at least 4%, a CET1 capital ratio of 4.5% or better, a Tier 1 risk-based capital ratio of at least 6.0%, a total risk-based capital ratio of at least 8.0% and does not meet the definition of a well-capitalized bank. Lower levels of capital result in a bank being considered undercapitalized, significantly undercapitalized and critically undercapitalized.

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

An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. In addition, a bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to various limitations. The controlling holding company's obligation to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The FDIC is required to resolve a bank when its ratio of tangible equity to tangible assets reaches 2%. The regulations also establish procedures for downgrading an institution into a lower capital category based on supervisory factors other than capital. As of December 31, 2018, Pinnacle Bank maintained capital levels that would qualify it as "well-capitalized".

The Basel III capital rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. Specific changes to the rules impacting Pinnacle Financial's and Pinnacle Bank's determination of risk-weighted assets include, among other things:

- applying a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate acquisition, development and construction loans;
- assigning a 150% risk weight to the unsecured portion of non-residential mortgage loans that are 90 days past due or otherwise on nonaccrual status;
- providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (previously set at 0%);
- providing for a risk weight, generally not less than 20% with certain exceptions, for securities lending transactions based on the risk weight category of the underlying collateral securing the transaction;
- providing for a 600% risk weight on equity exposures; and
- eliminating the 50% cap on the risk weight for OTC derivatives.

In December 2017, the Basel Committee on Banking Supervision published the last version of the Basel III accord, generally referred to as "Basel IV." The Basel Committee stated that a key objective of the revisions incorporated into the framework is to reduce excessive variability of risk-weighted assets ("RWA"), which will be accomplished by enhancing the robustness and risk sensitivity of the standardized approaches for credit risk and operational risk, which will facilitate the comparability of banks' capital ratios; constraining the use of internally modeled approaches; and complementing the risk-weighted capital ratio with a finalized leverage ratio and a revised and robust capital floor. Leadership of the federal banking agencies who are tasked with implementing Basel IV has indicated that it is considering how to appropriately apply these revisions in the United States. Although it is uncertain at this time, we anticipate some, if not all, of the Basel IV accord may be incorporated into the capital requirements framework applicable to Pinnacle Financial and Pinnacle Bank.

At December 31, 2018, Pinnacle Bank's CET1 capital ratio was 10.5%, Tier 1 risk-based capital ratio was 10.5%, total risk-based capital ratio was 11.5% and Tier 1 leverage ratio was 9.8%, compared to 10.3%, 10.3%, 11.3% and 9.7% at December 31, 2017, respectively. At December 31, 2018, Pinnacle Financial's CET1 capital ratio was 9.6%, Tier 1 risk-based capital ratio was 9.6%, total risk-based capital ratio was 12.2% and Tier 1 leverage ratio was 8.9%, compared to 9.1%, 9.1%, 12.0% and 8.6% at December 31, 2017, respectively. All of these ratios exceeded regulatory minimums and those required by Basel III and FDICIA (including after application of any capital conservation buffer) to be considered well capitalized. More information concerning Pinnacle Financial's and Pinnacle Bank's regulatory ratios at December 31, 2018 is included in Note 20 to the "Notes to Consolidated Financial Statements" included elsewhere in this Annual Report on Form 10-K.

Capital Planning

Banking organizations must have appropriate capital planning processes, with proper oversight from the board of directors. Accordingly, pursuant to a separate, general supervisory letter from the Federal Reserve, bank holding companies are expected to conduct and document comprehensive capital adequacy analyses prior to the declaration of any dividends (on common stock, preferred stock, trust preferred securities or other Tier 1 capital instruments), capital redemptions or capital repurchases. Moreover, the federal banking agencies have adopted a joint agency policy statement, noting that the adequacy and effectiveness of a bank’s interest rate risk management process and the level of its interest rate exposures are critical factors in the evaluation of the bank’s capital adequacy. A bank with material weaknesses in its interest rate risk management process or high levels of interest rate exposure relative to its capital will be directed by the relevant federal banking agencies to take corrective actions.

In November 2018, Pinnacle Financial announced that its board of directors had authorized a $100 million common stock repurchase program. Repurchases of shares of Pinnacle Financial's common stock will be made in accordance with applicable laws and may be made at management’s discretion from time to time in the open market, through privately negotiated transactions or otherwise. The board authorized the repurchase program to remain in effect through Dec. 31, 2019, unless the entire repurchase amount has been acquired before that date. As of December 31, 2018, Pinnacle Financial repurchased 405,200 shares for $20.7 million, representing a weighted average repurchase price of $51.05 per share.

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Payment of Dividends

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

In addition to state law limitations on Pinnacle Financial's ability to pay dividends, the Federal Reserve imposes limitations on Pinnacle Financial's ability to pay dividends. As noted above, effective January 1, 2016, Federal Reserve regulations limit dividends, stock repurchases and discretionary bonuses to executive officers if Pinnacle Financial's regulatory capital is below the level of regulatory minimums plus the applicable capital conservation buffer.

Statutory and regulatory limitations also apply to Pinnacle Bank's payment of dividends to Pinnacle Financial. Pinnacle Bank is required by Tennessee law to obtain the prior approval of the Commissioner of the TDFI for payments of dividends if the total of all dividends declared by its board of directors in any calendar year will exceed (1) the total of Pinnacle Bank's net income for that year, plus (2) Pinnacle Bank's retained net income for the preceding two years. As of December 31, 2018, Pinnacle Bank could pay dividends to Pinnacle Financial of up to $465.8 million. Generally, federal regulatory policy encourages holding company debt to be serviced by subsidiary bank dividends or additional equity rather than debt issuances. Pinnacle Financial had available cash balances of approximately $93.5 million at December 31, 2018.

The payment of dividends by Pinnacle Bank and Pinnacle Financial may also be affected by other factors, such as the requirement to maintain adequate capital above statutory and regulatory requirements imposed on Pinnacle Bank or Pinnacle Financial by their regulators. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the FDICIA, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured depository institutions should generally only pay dividends out of current operating earnings, and the capital rules adopted implementing Basel III prohibit the payment of dividends when a holding company or insured depository institution is not in compliance with the capital conservation buffer described elsewhere in this report. See "Capital Adequacy" above.

During the fourth quarter of 2013, Pinnacle Financial initiated a quarterly common stock dividend in the amount of $0.08 per share. The board of directors of Pinnacle Financial has increased the dividend amount per share over time. The most recent increase occurred on October 16, 2018, when the board of directors increased the dividend to $0.16 per share. During the year ended December 31, 2018, Pinnacle Financial paid $45.5 million in dividends to its common shareholders. On January 15, 2019, our board of directors declared a $0.16 per share quarterly cash dividend to common shareholders which approximated $12.7 million in aggregate dividend payments paid on February 22, 2019 to common shareholders of record as of the close of business on February 1, 2019. The amount and timing of all future dividend payments, if any, is subject to our board's discretion and will depend on our earnings, capital position, financial condition and other factors, including new regulatory capital requirements, as they become known to us.

Restrictions on Transactions with Affiliates

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

- A bank's loans or extensions of credit, including purchases of assets subject to an agreement to repurchase, to or for the benefit of affiliates;
- A bank's investment in affiliates;
- Assets a bank may purchase from affiliates, except for real and personal property exempted by the Federal Reserve;
- The amount of loans or extensions of credit to third parties collateralized by the securities or obligations of affiliates;
- Transactions involving the borrowing or lending of securities and any derivative transaction that results in credit exposure to an affiliate; and
- A bank's guarantee, acceptance or letter of credit issued on behalf of an affiliate.

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

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

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

Community Reinvestment Act and Fair Lending

The Community Reinvestment Act ("CRA") requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve and the FDIC shall evaluate the record of each financial institution in meeting the credit needs of its local communities, including low- and moderate-income neighborhoods consistent with safe and sound operations of the institutions. These facts are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on Pinnacle Bank. Additionally, banks are required to publicly disclose the terms of various Community Reinvestment Act-related agreements. Pinnacle Bank received an "outstanding" CRA rating from its primary federal regulator on its most recent regulatory examination.

Pinnacle Bank is also subject to certain fair lending requirements and reporting obligations involving its home mortgage lending operations. Fair lending laws prohibit discrimination in the provision of banking services, and bank regulators have increasingly focused on the enforcement of these laws. Fair lending laws include the Equal Credit Opportunity Act of 1974 and the Fair Housing Act of 1968, which prohibit discrimination in credit and residential real estate transactions on the basis of prohibited factors including, among others, race, color, national origin, gender and religion. Pinnacle Bank may be liable, either through administrative enforcement or private civil actions, for policies that result in a disparate treatment of or have a disparate impact on a protected class of applicants or borrowers. If a pattern or practice of lending discrimination is alleged by a regulator, then that agency may refer the matter to the U.S. Department of Justice ("DOJ") for investigation. Pursuant to a Memorandum of Understanding, the DOJ and Consumer Financial Protection Bureau ("CFPB") have agreed to share information, coordinate investigations and generally commit to strengthen their coordination efforts. Pinnacle Bank is required to have a fair lending program that is of sufficient scope to monitor the inherent fair lending risk of the institution and that appropriately remediates issues which are identified.

Cybersecurity and Data Privacy

State and federal banking regulators have issued various policy statements and, in some cases, regulations, emphasizing the importance of technology risk management and supervision. Such policy statements and regulations indicate that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. A financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack.

Federal statutes and regulations, including the Gramm-Leach-Bliley Act and the Right to Financial Privacy Act of 1978, limit Pinnacle Financial's and Pinnacle Bank's ability to disclose non-public information about consumers, customers and employees to nonaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires disclosure of our privacy policies and practices relating to sharing non-public information and enables retail customers to opt out of the institution's ability to share information with unaffiliated third parties under certain circumstances. The Gramm-Leach-Bliley Act also requires Pinnacle Financial and Pinnacle Bank to implement a comprehensive information security program that includes administrative, technical and physical safeguards to ensure the security and confidentiality of customer records and information and, if applicable state law is more protective of customer privacy than the Gramm-Leach-Bliley Act, financial institutions, including Pinnacle Bank, will be required to comply with such state law. Other laws and regulations impact Pinnacle Financial's and Pinnacle Bank's ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In connection with the regulations governing the privacy of consumer financial information, the federal banking agencies, including the FDIC, have adopted guidelines for establishing information security standards and programs to protect such information. In addition, Pinnacle Bank has established a privacy policy that it believes promotes compliance with the federal requirements.

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Other Consumer Laws and Regulations

Interest and other charges collected or contracted for by Pinnacle Bank are subject to state usury laws and federal laws concerning interest rates. For example, under the Service Members Civil Relief Act, a lender is generally prohibited from charging an annual interest rate in excess of 6% on any obligations for which the borrower is a person on active duty with the United States military.

Pinnacle Bank's loan operations are also subject to federal laws applicable to credit transactions, such as the:

- Federal Truth-In-Lending Act, governing disclosures of credit terms and costs to consumer borrowers, giving consumers the right to cancel certain credit transactions, and defining requirements for servicing consumer loans secured by a dwelling;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Practices Act, governing the manner in which consumer debts may be collected by collection agencies;
- Service Members Civil Relief Act, governing the repayment terms of, and property rights underlying, secured obligations of persons in active military service;
- Rules and regulations of the various federal agencies charged with the responsibility of implementing the federal laws;
- Electronic Fund Transfers Act, which regulates fees and other terms of electronic funds transactions;
- Fair and Accurate Credit Transactions Act of 2003, which permanently extended the national credit reporting standards of the Fair Credit Reporting Act, and permits consumers, including our customers, to opt out of information sharing among affiliated companies for marketing purposes and requires financial institutions, including banks, to notify a customer if the institution provides negative information about the customer to a national credit reporting agency or if the credit that is granted to the customer is on less favorable terms than those generally available;
- Fair Housing Act, which prohibits discriminatory practices relative to real estate related transactions, including the financing of housing and the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws; and
- Real Estate Settlement and Procedures Act of 1974, which affords consumers greater protection pertaining to federally related mortgage loans by requiring, among other things, improved and streamlined loan estimate forms including clear summary information and improved disclosure of yield spread premiums.

Pinnacle Bank's deposit operations are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Fund Transfers Act and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities (including with respect to the permissibility of overdraft charges) arising from the use of automated teller machines and other electronic banking services.
- Truth in Savings Act, which requires depository institutions to disclose the terms of deposit accounts to consumers;
- Expedited Funds Availability Act, which requires financial institutions to make deposited funds available according to specified time schedules and to disclose funds availability policies to consumers; and
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Check Clearing for the 21st Century Act ("Check 21"), which is designed to foster innovation in the payments system and to enhance its efficiency by reducing some of the legal impediments to check truncation. Check 21 created a new negotiable instrument called a substitute check and permits, but does not require banks to truncate original checks, process check information electronically, and deliver substitute checks to banks that wish to continue receiving paper checks.

Pinnacle Bank's loan and deposit operations are both subject to the Bank Secrecy Act which governs how banks and other firms report certain currency transactions and maintain appropriate safeguards against "money laundering" activities.

Examination and enforcement by the state and federal banking agencies, and other such enforcement authorities, for non-compliance with consumer protection laws and their implementing regulations have increased and become more intense. The advent of the CFPB, as described in more detail below, further heightens oversight and review of compliance with consumer protection laws and regulations. Due to these heightened regulatory concerns, including increased enforcement of the CRA by the federal banking agencies, and new powers and authority of the CFPB, Pinnacle Bank and its affiliates may incur additional compliance costs or be required to expend additional funds for investments in their local community.

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Anti-Terrorism Legislation and Anti-Money Laundering

Pursuant to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (“USA PATRIOT”) Act of 2001, as amended, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers.

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The Bank Secrecy Act (“BSA”) and its implementing regulations and parallel requirements of the federal banking regulators require Pinnacle Bank to maintain a risk-based anti-money laundering (“AML”) program reasonably designed to prevent and detect money laundering and terrorist financing and to comply with the recordkeeping and reporting requirements of the BSA, including the requirement to report suspicious activity. The USA PATRIOT Act substantially broadened the scope of AML laws and regulations by imposing significant new compliance and due diligence obligations on financial institutions, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Financial institutions, including banks, are required under final rules implementing Section 326 of the USA PATRIOT Act to establish procedures for collecting standard information from customers opening new accounts and verifying the identity of these new account holders within a reasonable period of time. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must take certain steps to assist government agencies in detecting and preventing money laundering and to report certain types of suspicious transactions. In May 2016, Treasury’s Financial Crimes Enforcement Network (“FinCEN”) issued rules under the BSA requiring financial institutions to identify the beneficial owners who own or control certain legal entity customers at the time an account is opened and to update their AML compliance programs no later than May 11, 2018, to include risk-based procedures for conducting ongoing customer due diligence.

Pinnacle Bank currently has policies and procedures in place designed to comply with the USA PATRIOT Act, the BSA and the other regulations targeting terrorism and money laundering. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to consider the effectiveness of the anti-money laundering activities of the applicants. Material deficiencies in anti-money laundering compliance, and non-compliance with related requirements such as the U.S. economic and trade sanctions regimes, can result in public enforcement actions by the bank regulatory agencies and other government agencies, including the imposition of civil money penalties and supervisory restrictions on growth and expansion. Such enforcement actions could also have serious reputational consequences for Pinnacle Financial and Pinnacle Bank.

The Office of Foreign Assets Control

The Office of Foreign Assets Control (“OFAC”), which is an office in the U.S. Department of the Treasury, is responsible for helping to ensure that U.S. entities do not engage in transactions with “enemies” of the United States, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts; owned or controlled by, or acting on behalf of target countries, and narcotics traffickers. If a bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze or block the transactions on the account. Pinnacle Bank has appointed a compliance officer to oversee the inspection of its accounts and the filing of any notifications. Pinnacle Bank actively checks high risk OFAC areas such as new accounts, wire transfers and customer files. These checks are performed using software that is updated each time a modification is made to the lists provided by OFAC and other agencies of Specially Designated Nationals and Blocked Persons.

The Dodd-Frank Act

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of the nation's financial institutions. In 2010, the U.S. Congress passed the Dodd-Frank Act, which includes significant consumer protection provisions related to, among other things, residential mortgage loans that have increased, and are likely to further increase, our regulatory compliance costs. The Dodd-Frank Act also imposes other restrictions on our operations, including restrictions on the types of investments that bank holding companies and banks can make. Given the sweeping nature of the Dodd-Frank Act and the fact that our total assets now exceed $10 billion, which results in the imposition of certain additional requirements thereunder, we expect that the Dodd-Frank Act will continue to have a negative impact on our earnings through fee reductions, higher costs and restrictions on certain activities. Failure to comply with the requirements would negatively impact our results of operations and financial condition and could limit our growth or expansion activities. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, such changes could be materially adverse to our investors.

Set out below are certain of the additional provisions of the Dodd-Frank Act to which we are subject since our total assets exceed $10 billion.

Durbin Amendment. The Dodd-Frank Act included provisions (known as the "Durbin Amendment") which restrict interchange fees to those which are "reasonable and proportionate" for certain debit card issuers and limits the ability of networks and issuers to restrict debit card transaction routing. The Federal Reserve issued final rules implementing the Durbin Amendment on June 29, 2011. In the final rules, interchange fees for debit card transactions were capped at $0.21 plus five basis points (plus $0.01 for fraud loss) in order to be eligible for a safe harbor such that the fee is conclusively determined to be reasonable and proportionate. The interchange fee restrictions contained in the Durbin Amendment, and the rules promulgated thereunder, only apply to debit card issuers with $10 billion or more in total consolidated assets, like Pinnacle Bank. The implications of the Durbin Amendment first became applicable to us on July 1, 2017.

Consumer Financial Protection Bureau. The Dodd-Frank Act also created the CFPB, which took over responsibility for enforcing the principal federal consumer protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and the Truth in Saving Act, among others, on July 21, 2011. We are subject to oversight by the CFPB.

The CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks including, among other things, the authority to prohibit "unfair, deceptive, or abusive" acts and practices. Abusive acts or practices are defined as those that (1) materially interfere with a consumer's ability to understand a term or condition of a consumer financial product or service, or (2) take unreasonable advantage of a consumer's (a) lack of financial savvy, (b) inability to protect himself in the selection or use of consumer financial products or services, or (c) reasonable reliance on a covered entity to act in the consumer's interests. The CFPB has the authority to investigate possible violations of federal consumer financial law, hold hearings and commence civil litigation. The CFPB can issue cease-and-desist orders against banks and other entities that violate consumer financial laws. The CFPB may also institute a civil action against an entity in violation of federal consumer financial law in order to impose a civil penalty or an injunction. The CFPB has been active in bringing enforcement actions related to consumer financial protection laws and obtaining the forms of relief described above.

The rules issued by the CFPB will have a long-term impact on our business, including our mortgage loan origination and servicing activities. Compliance with these rules will increase our overall regulatory compliance costs. On July 1, 2017, the CFPB took over conducting on-site consumer examinations from the FDIC for all regulations that transferred under their supervision.

On May 24, 2018, President Trump signed into law the Economic Growth, Regulatory Relief, and Consumer Protection Act (the “Growth Act”). The Growth Act alters some of the provisions of the Dodd-Frank Act. Certain of these provisions, to which we became subject once our total assets exceeded $10 billion, are set out below, along with the changes made to such provisions under the Growth Act.

Under the Dodd-Frank Act, publicly traded bank holding companies with $10 billion or more in total assets like Pinnacle Financial were required to establish a risk committee responsible for oversight of enterprise-wide risk management practices. Pinnacle Financial established a risk committee on February 7, 2017. The Growth Act raised the minimum asset threshold triggering the requirement to establish a risk committee from $10 billion to $50 billion. As a result, Pinnacle Financial is no longer required to maintain its standalone risk committee.

Pursuant to the Dodd-Frank Act, any banking organization, including whether a bank holding company or a depository institution, with more than $10 billion in total consolidated assets and regulated by a federal financial regulatory agency was required to conduct annual company-run stress tests to ensure it had sufficient capital during periods of economic downturn. Pinnacle Financial’s and Pinnacle Bank’s first stress tests were due in July 2018. The Growth Act raised the asset threshold at which companies are required to conduct the stress tests from $10 billion to $250 billion. While we are no longer required to annually conduct stress tests under the Dodd-Frank Act, we expect to continue to perform stress tests from time to time in connection with our capital planning process.

Securities Registration and Listing

Pinnacle Financial's securities are registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and listed on the Nasdaq Global Select Market. As such, Pinnacle Financial is subject to the information, proxy solicitation, insider trading, corporate governance, and other requirements and restrictions of the Exchange Act, as well as the Marketplace Rules and other requirements promulgated by the Nasdaq Stock Market, LLC.

As a public company, Pinnacle Financial is also subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including, among other things, required executive certification of financial presentations, increased requirements for board audit committees and their members, and enhanced requirements relating to disclosure controls and procedures and internal control over financial reporting.

Insurance Agencies

Each of Miller Loughry Beach and HPB Insurance Group is subject to licensing requirements and extensive regulation under the laws of the various states in which it conducts its insurance agency business. These laws and regulations are primarily for the protection of policyholders. In all jurisdictions, the applicable laws and regulations are subject to amendment or interpretation by regulatory authorities.

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Generally, those authorities are vested with relatively broad discretion to grant, renew and revoke licenses and approvals and to implement regulations. Licenses may be denied or revoked for various reasons, including for regulatory violations or upon conviction for certain crimes. Possible sanctions that may be imposed for violation of regulations include the suspension of individual employees, limitations on engaging in a particular business for a specified period of time, revocation of licenses, censures and fines.

Effect of Governmental Monetary Policies

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

Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide-ranging provisions for altering the structures, regulations and competitive relationships of the nation’s financial institutions. Throughout 2017 and 2018, the U.S. Congress has debated, proposed and, in some cases, passed changes to the financial institution regulatory landscape, including the Growth Act and other proposed amendments to the Dodd-Frank Act, including raising the asset threshold levels at which financial institutions and their holding companies become subject to enhanced regulatory oversight and compliance requirements. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute. Even if modifications are enacted to existing or proposed regulations, including raising certain assets thresholds above those currently in place, we may continue to face enhanced scrutiny from our regulators who may expect us to continue to comply with the current, more stringent requirements as part of their safety and soundness and compliance examinations and general oversight of our operations.

ITEM 1A. RISK FACTORS

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

Our net interest margin, and consequently our net earnings, are significantly affected by interest rate levels.

Our profitability is dependent to a large extent on net interest income, which is the difference between interest income earned on loans and investment securities and interest expense paid on deposits, other borrowings, subordinated debentures and subordinated notes. The absolute level of interest rates as well as changes in interest rates or that affect the yield curve may affect our level of interest income, the primary component of our gross revenue, as well as the level of our interest expense. Interest rate fluctuations are caused by many factors which, for the most part, are not under our control. For example, national monetary policy plays a significant role in the determination of interest rates. Additionally, competitor pricing and the resulting negotiations that occur with our customers also impact the rates we collect on loans and the rates we pay on deposits. In addition, changes in the method of determining the London Interbank Offered Rate (LIBOR) or other reference rates, or uncertainty related to such potential changes, may adversely affect the value of reference rate-linked debt securities that we hold or issue, which could further impact our interest rate spread.

Changes in the level of interest rates also may negatively affect our ability to originate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which could ultimately affect our results of operations and financial condition. A decline in the market value of our assets may limit our ability to borrow additional funds. As a result, we could be required to sell some of our loans and investments under adverse market conditions, upon terms that are not favorable to us, in order to maintain our liquidity. If those sales are made at prices lower than the amortized costs of the investments, we will incur losses. Following an increase in the general level of interest rates, our ability to maintain a positive net interest spread is dependent on our ability to increase our loan offering rates, replace loan maturities with new originations, minimize increases on our deposit rates, and maintain an acceptable level and mix of funding. Although we have implemented procedures we believe will reduce the potential effects of changes in interest rates on our net interest income, these procedures may not always be successful. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest income and our net interest margin, asset quality, loan origination volume, liquidity, and overall profitability. We cannot assure you that we can minimize our interest rate risk.

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Over the last few years, interest rates have increased. Since December 2015, the Federal Reserve has raised short-term interest rates nine times and may institute further changes in the future. Because of significant competitive pressures in our markets and the negative impact of these pressures on our deposit and loan pricing, coupled with the fact that a significant portion of our loan portfolio has variable rate pricing that moves in concert with changes to the Federal Reserve's federal funds rate or LIBOR, our net interest margin may be negatively impacted if these short-term rates decline or do not continue to rise. However, further increases may also negatively impact our results of operations if we are unable to increase the rates we charge on loans or earn on our investment securities in excess of the increases we must pay on deposits and our other funding sources.

As interest rates change, we expect that we will periodically experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities (usually deposits and borrowings) will be more sensitive to changes in market interest rates than our interest-earning assets (usually loans and investment securities), or vice versa. In either event, if market interest rates should move contrary to our position, this "gap" may work against us, and our results of operations and financial condition may be negatively affected. We attempt to manage our risk from changes in market interest rates by adjusting the rates, maturity, repricing characteristics, and balances of the different types of interest-earning assets and interest-bearing liabilities. Interest rate risk management techniques are not exact. We employ the use of models and modeling techniques to quantify the levels of risks to net interest income, which inherently involve the use of assumptions, judgments, and estimates. While we strive to ensure the accuracy of our modeled interest rate risk profile, there are inherent limitations and imprecisions in this determination and actual results may differ.

We have entered into certain hedging transactions including interest rate swaps, which are designed to lessen elements of our interest rate exposure. We utilize fair value hedges in an effort to manage future interest rate exposure in both our loan book and our investment securities portfolio. At December 31, 2018, these fair value hedges totaled a liability of $21.8 million. In addition, we utilize cash flow hedges to manage interest rate exposure for our wholesale borrowings portfolio. The hedging strategy converts the LIBOR-based variable interest rate on forecasted borrowings to a fixed interest rate and is used in an effort to protect us from floating interest rate variability. At December 31, 2018, these cash flow hedges totaled a liability of $1.8 million. In the event that interest rates do not change in the manner anticipated, such transactions may adversely affect our results of operations.

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

We have meaningful credit exposures to borrowers in certain businesses, including commercial and residential building lessors, new home builders. These industries experienced adversity during 2008 through 2010 as a result of sluggish economic conditions, and, as a result, an increased level of borrowers in these industries were unable to perform under their loan agreements with us, or suffered loan downgrades which negatively impacted our results of operations. If the economic environment in our markets weakens in 2019 or beyond, these industry or other concentrations could result in increased deterioration in credit quality, past dues, loan charge offs and collateral value declines, which could cause our results of operations and financial condition to be negatively impacted. Furthermore, any of our large credit exposures that deteriorate unexpectedly could cause us to have to make significant additional loan loss provisions, negatively impacting our results of operations and financial condition.

A substantial focus of our marketing and business strategy is to serve small to medium-sized businesses in our market areas. As a result, a relatively high percentage of our loan portfolio consists of commercial loans primarily to small to medium-sized businesses. At December 31, 2018, our commercial and industrial loans accounted for almost 29.8% of our total loans. Additionally, approximately, 37.0% of our commercial real-estate mortgage loans at December 31, 2018 are owner-occupied commercial real estate loans, which are loans to businesses secured by the businesses' real estate. We expect to seek to expand the amount of such loans in our portfolio in 2019. During periods of lower economic growth or challenging economic periods, small to medium-sized businesses may be impacted more severely and more quickly than larger businesses. Consequently, the ability of such businesses to repay their loans may deteriorate, and in some cases this deterioration may occur quickly, which would adversely impact our results of operations and financial condition.

As a result of our recent acquisitions and our organic growth in our legacy markets as well as our revaluation of deferred tax assets and recognized investment securities losses following the passage of the Tax Cuts and Jobs Act during the fourth quarter of 2017, our level of commercial real estate loans increased markedly from approximately 190% of total risk-based capital as of December 31, 2014 to approximately 278% of total risk-based capital as of December 31, 2018. If our level of commercial real estate loans were to exceed regulatory guidelines (as was the case during the first half of 2018), our ability to grow our loan portfolio in line with our targets may be negatively impacted if we don’t increase our capital levels and it may be more difficult to secure any required regulatory approvals necessary to execute on our expansion strategy without increasing our capital levels.

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The percentage of real estate construction and development loans in our loan portfolio was approximately 11.7% of total loans at December 31, 2018 and approximately 80.3% of Pinnacle Financial's total risk-based capital. These loans make up approximately 3.9% of our non-performing loans at December 31, 2018. This type of lending is generally considered to have relatively high credit risks because the principal is concentrated in a limited number of loans with repayment dependent on the successful completion and operation of the related real estate project. Real estate industry pricing dynamics in the geographical markets in which we operate can vary from year to year, and with respect to construction, can vary between project funding and project completion. Asset values to which we underwrite loans can fluctuate from year to year and impact collateral values and the ability of our borrowers to repay their loans. Like regulatory guidelines on commercial real estate loans, federal regulators have issued guidance that imposes additional restrictions on banks with construction and development loans in excess of 100% of total capital. If our level of these loans was to exceed these guidelines, our ability to make additional loans in this segment would be limited.

Weakness in residential real estate market prices as well as demand could result in price reductions in home and land values adversely affecting the value of collateral securing some of the construction and development loans that we hold. Should we experience the return of adverse economic and real estate market conditions similar to those we experienced from 2008 through 2010 we may again experience increases in non-performing loans and other real estate owned, increased losses and expenses from the management and disposition of non-performing assets, increases in provision for loan losses, and increases in operating expenses as a result of the allocation of management time and resources to the collection and work out of loans, all of which would negatively impact our financial condition and results of operations.

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

Our ability to continue to improve our results of operations is dependent upon, among other things, aggressively growing our loan portfolio. While we believe that our strategy to grow our loan portfolio is sound and our growth targets are achievable over an extended period of time, competition within our market areas is significant, particularly for borrowers whose businesses were less negatively impacted by the challenging economic conditions of the recession. We compete with both large regional and national financial institutions, who are sometimes able to offer more attractive interest rates and other financial terms than we choose to offer, and smaller community-based financial institutions who seek to offer a similar level of service to that which we offer. This competition can make loan growth challenging, particularly if we are unwilling to price loans at levels that would cause unacceptable levels of compression of our net interest margin or if we are unwilling to structure a loan in a manner that we believe results in a level of risk to us that we are not willing to accept. Moreover, loan growth throughout the year can fluctuate due in part to seasonality of the businesses of our borrowers and potential borrowers and the timing on loan repayments, particularly those of our borrowers with significant relationships with us, resulting from, among other things, excess levels of liquidity. In addition, the passage of the Tax Cuts and Jobs Act, which contains provisions limiting the mortgage interest tax deduction and eliminating the deduction for interest paid on home equity loans, may negatively affect our ability to originate residential real estate loans (including home equity lines of credit).

Much of our organic loan growth that we have experienced in recent years (and a key part of our loan growth strategy in 2019 and beyond) was the result not of strong loan demand but rather of our ability to attract experienced financial services professionals who have been able to attract customers from other financial institutions. Inability to retain these key personnel (including key personnel of the businesses we have acquired) or to continue to attract experienced lenders with established books of business (including, in either case, as a result of competitive compensation and other hiring and retention pressures), at all or at the pace we have anticipated, could negatively impact our growth because of the loss of these individuals' skills and customer relationships and/or the potential difficulty of promptly replacing them. Moreover, if these advisors we hire are unable to cause their customers to move their relationships to us in the time periods that we are targeting or at all, or if we are unable to retain such business, our loan growth may be negatively affected, which could have a material adverse effect on our results of operations and financial condition.

Negative developments in the U.S. and local economy may adversely impact our results in the future.
Our financial performance is highly dependent on the business environment in the markets where we operate and in the U.S. as a whole. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, investor or business confidence, consumer sentiment, limitations on the availability or increases in the cost of credit and capital, increases in inflation or interest rates, natural disasters, terrorist attacks, acts of war, or a combination of these or other factors. Economic conditions in the markets in which we operate deteriorated significantly between early 2008 and the middle of 2010. These challenges manifested themselves primarily in the form of increased levels of provisions for loan losses and other real estate expense related to declining collateral values in our real estate loan portfolio and increased costs associated

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with our portfolio of other real estate owned. A worsening of business and economic conditions generally or specifically in the principal markets in which we conduct business could have adverse effects, including the following:

- a decrease in deposit balances or the demand for loans and other products and services we offer;
- an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us, which could lead to higher levels of nonperforming assets, net charge-offs and provisions for credit losses;
- a decrease in the value of loans and other assets secured by real estate;
- a decrease in net interest income from our lending and deposit gathering activities; and
- an increase in competition resulting from financial services companies.

Although economic conditions have strengthened in most of our markets in recent periods and we have focused our efforts on growing our earning assets, we believe that it is possible we will continue to experience an uncertain and volatile economic environment during 2019, including as a result of political uncertainties that led to the shutdown of the federal government in January 2019 and which may contribute to similar shutdowns in the future. There can be no assurance that these conditions will improve in the near term or that conditions will not worsen. Such conditions could adversely affect our business, financial condition, and results of operations.

In addition, over the last several years, including beginning on December 22, 2018, the federal government has shut down several times, in some cases for prolonged periods. It is possible that the federal government may shut down again in the future. If a prolonged government shutdown occurs, it could significantly impact business and economic conditions generally or specifically in our principal markets, which could have a material adverse effect on our results of operations and financial condition.

Our operations are principally geographically concentrated in certain markets in the southeastern United States, and changes in local economic conditions impact our profitability.

A significant percentage of our borrowers are situated in various MSAs in Tennessee, North Carolina, South Carolina and Virginia in which we operate. Our success significantly depends upon the growth in population, income levels, deposits, employment levels and housing starts in our markets, along with the continued attraction of business ventures to these areas, and our profitability is impacted by the changes in general economic conditions in these markets and other markets in which collateral securing our loans is located. We cannot assure you that economic conditions, including loan demand, in these markets will not deteriorate during 2019 or thereafter, and upon any deterioration, we may not be able to grow our loan portfolio in line with our expectations and the ability of our customers to repay their loans to us may be negatively impacted and our financial condition and results of operations could be negatively and materially impacted.

Our business may suffer if there are significant declines in the value of real estate.

The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. If the value of the real estate serving as collateral for our loan portfolio were to decline materially, a significant part of our loan portfolio could become under-collateralized. If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, we may not be able to realize the value of the security anticipated when we originated the loan, which in turn could have an adverse effect on our allowance and provision for loan and lease losses and our financial condition, results of operations and liquidity.

Most of our foreclosed assets are comprised of real estate properties. We carry these properties at their estimated fair values less estimated selling costs. While we believe the carrying values for such assets are reasonable and appropriately reflect current market conditions, there can be no assurance that the values of such assets will not further decline prior to sale or that the amount of proceeds realized upon disposition of foreclosed assets will approximate the carrying value of such assets. If the proceeds from any such dispositions are less than the carrying value of foreclosed assets, we will record a loss on the disposition of such assets, which in turn could have an adverse effect on our results of operations.

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

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If our allowance for loan losses is not sufficient to cover losses inherent in our loan portfolio, our results of operations and financial condition will be negatively impacted.

If loan customers with significant loan balances fail to repay their loans, our results of operations, financial condition and capital levels will suffer. We make various assumptions and judgments about the probable losses in our loan portfolio, including the creditworthiness of our borrowers and the value of any collateral securing the loans. Utilizing objective and subjective factors, we maintain an allowance for loan losses, established through a provision for loan losses charged to expense, to cover our estimate of the probable losses in our loan portfolio. In determining the size of this allowance, we utilize estimates based on analyses of volume and types of loans, internal loan classifications, trends in classifications, volume and trends in delinquencies, nonaccruals and charge-offs, loss experience of various loan categories, national and local economic conditions, industry and peer bank loan quality indications, and other pertinent factors and information. Actual losses are difficult to forecast, especially if those losses stem from factors beyond our historical experience or are otherwise inconsistent with our credit quality assessments. If our assumptions are inaccurate, our current allowance may not be sufficient to cover potential loan losses, and additional provisions may be necessary which would negatively impact our results of operations and financial condition.

In addition, federal and state regulators periodically review our loan portfolio and may require us to increase our allowance for loan losses or recognize loan charge-offs. Their conclusions about the quality of a particular borrower or our entire loan portfolio may be different than ours. Any increase in our allowance for loan losses or loan charge offs as required by these regulatory agencies could have a negative effect on our results of operations and financial condition. Moreover, additions to the allowance may be necessary based on changes in economic and real estate market conditions, new information regarding existing loans, identification of additional problem loans, accounting rule changes (like those related to the Financial Accounting Standards Board’s rules regarding accounting for current expected credit losses that are not yet effective) and other factors, both within and outside of our management’s control. These additions may require increased provision expense which would negatively impact our results of operations and financial condition.

Liquidity risk could impair our ability to fund our operations and jeopardize our financial condition.

Liquidity represents an institution’s ability to provide funds to satisfy demands from depositors, borrowers and other creditors by either converting assets into cash or accessing new or existing sources of incremental funds. Liquidity risk arises from the possibility that we may be unable to satisfy current or future funding requirements and needs.

The objective of managing liquidity risk is to ensure that our cash flow requirements resulting from depositor, borrower and other creditor demands as well as our operating cash needs, are met, and that our cost of funding such requirements and needs is reasonable. We maintain an asset/liability and interest rate risk policy and a liquidity and funds management policy, including a contingency funding plan that, among other things, include procedures for managing and monitoring liquidity risk. Generally we rely on deposits, repayments of loans and cash flows from our investment securities as our primary sources of funds. Our principal deposit sources include consumer, commercial and public funds customers in our markets. We have used these funds, together with wholesale deposit sources such as brokered deposits, along with Federal Home Loan Bank of Cincinnati (“FHLB Cincinnati”) advances, federal funds purchased and other sources of short-term and long-term borrowings, to make loans, acquire investment securities and other assets and to fund continuing operations.

An inability to maintain or raise funds in amounts necessary to meet our liquidity needs could have a substantial negative effect, individually or collectively, on Pinnacle Financial and Pinnacle Bank's liquidity. Our access to funding sources in amounts adequate to finance our activities, or on terms attractive to us, could be impaired by factors that affect us specifically or the financial services industry in general. For example, factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us, a reduction in our credit rating, any damage to our reputation or any other decrease in depositor or investor confidence in our creditworthiness and business. Our access to liquidity could also be impaired by factors that are not specific to us, such as severe volatility or disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole. Any such event or failure to manage our liquidity effectively could affect our competitive position, increase our borrowing costs and the interest rates we pay on deposits, limit our access to the capital markets, cause our regulators to criticize our operations and have a material adverse effect on our results of operations or financial condition.

Deposit levels may be affected by a number of factors, including demands by customers, rates paid by competitors, general interest rate levels, returns available to customers on alternative investments, general economic and market conditions and other factors. Loan repayments are a relatively stable source of funds but are subject to the borrowers' ability to repay loans, which can be adversely affected by a number of factors including changes in general economic conditions, adverse trends or events affecting business industry groups or specific businesses, declines in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters, prolonged government shutdowns and other factors. Furthermore, loans generally are not readily convertible to cash. Accordingly, we may be required from time to time to rely on secondary sources of liquidity to meet growth in loans, deposit withdrawal demands or otherwise fund operations. Such secondary sources include FHLB Cincinnati advances, brokered deposits, secured and unsecured federal funds lines of credit from correspondent banks, Federal Reserve borrowings and/or accessing the equity or debt capital markets.

We anticipate we will continue to rely primarily on deposits, loan repayments, and cash flows from our investment securities to provide liquidity. Additionally, where necessary, the secondary sources of borrowed funds described above will be used to augment our primary funding sources. If we are unable to access any of these secondary funding sources when needed, we might be unable to meet our customers' or creditors' needs, which would adversely affect our financial condition, results of operations, and liquidity.

The performance of our investment securities portfolio is subject to fluctuation due to changes in interest rates and market conditions, including credit deterioration of the issuers of individual securities.

Changes in interest rates can negatively affect the performance of most of our investment securities. Interest rate volatility can reduce unrealized gains or increase unrealized losses in our portfolio. Interest rates are highly sensitive to many factors including monetary policies, domestic and international economic and political issues, including trade disputes, and other factors beyond our control. Fluctuations in interest rates can materially affect both the returns on and market value of our investment securities. Additionally, actual investment income and cash flows from investment securities that carry prepayment risk, such as mortgage-backed securities and callable securities, may materially differ from those anticipated at the time of investment or subsequently as a result of changes in interest rates and market conditions.

Our investment securities portfolio consists of several securities whose trading markets are "not active." As a result, we utilize alternative methodologies for pricing these securities that include various estimates and assumptions. There can be no assurance that we can sell these investment securities at the price derived by these methodologies, or that we can sell these investment securities at all, which could have an adverse effect on our financial condition, results of operations and liquidity.

We monitor the financial position of the various issues of investment securities in our portfolio, including each of the state and local governments and other political subdivisions where we have exposure. To the extent we have securities in our portfolio from issuers who have experienced a deterioration of financial condition, or who may experience future deterioration of financial condition, the value of such securities may decline and could result in an other-than-temporary impairment charge, which could have an adverse effect on our financial condition, results of operations and liquidity.

In addition, from time to time we may restructure portions of our investment securities portfolio as part of our asset liability management strategies, and may incur losses, which may be material, in connection with any such restructuring.

A new accounting standard may require us to increase our ALLL and could have a material adverse effect on our financial condition and results of operations.

The FASB has adopted a new accounting standard that will be effective for Pinnacle Bank beginning January 1, 2020. This standard, referred to as current expected credit loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses through provision for loan losses. This will change the current method of provisioning for loan losses that are probable, which may require us to increase our allowance for loan losses, and is likely to increase the types of data we would need to collect and review to determine the appropriate level of our allowance for loan losses. In addition, this change may result in more volatility in the level of our allowance for loan losses. An increase, to the extent material, in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses could have a material adverse effect on our capital levels, financial condition and results of operations. As discussed above, a reduction in our capital levels could subject us to a variety of enforcement remedies available to the federal regulatory authorities and would negatively impact our ability to pursue acquisitions or other expansion opportunities if we are unable to satisfactorily raise additional capital.

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

A significant and sustained decline in our stock price and market capitalization below book value, a significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates or other factors could result in impairment of our goodwill. At December 31, 2018, our goodwill and other identifiable intangible assets totaled approximately $1.9 billion. If we were to conclude that a write-down of our goodwill is necessary, then the appropriate charge would likely cause a material loss. Any significant loss would further adversely impact the capacity of Pinnacle Bank to pay dividends to Pinnacle Financial without seeking prior regulatory approval, which could adversely affect Pinnacle Financial's ability to pay required interest payments on its outstanding indebtedness or to continue to pay dividends to its shareholders.

Our accounting estimates and risk management processes rely on analytical and forecasting models and tools.

The processes we use to estimate probable credit losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other measures of our financial condition and results of operations, depend upon the use of analytical and forecasting models and tools. These models and tools reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are accurate, the models and tools may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. Any such failure in our analytical or forecasting models and tools could have a material adverse effect on our business, financial condition and results of operations.

Our selection of accounting policies and methods may affect our reported financial results.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with GAAP and reflect management's judgment of the most appropriate manner to report our financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet which may result in our reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting our financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. Because of the uncertainty of estimates involved in these matters, we may be required to do one or more of the following: significantly increase the allowance for loan losses or sustain loan losses that are significantly higher than the reserve provided; recognize significant impairment on goodwill and other intangible asset balances; reduce the carrying value of an asset measured at fair value; or significantly increase our accrued tax liability. Any of these could have a material adverse effect on our business, financial condition or results of operations. For a discussion of our critical accounting policies, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates" included elsewhere in this Annual Report on Form 10-K.

Changes to LIBOR may adversely affect the holder of, the market value of, and the interest expense paid on our subordinated notes and our subordinated debentures and related trust preferred securities, and may affect certain of our loans.

On July 27, 2017, the Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the LIBOR administrator. The announcement indicates that the continuation of LIBOR on the current basis will not be guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the LIBOR administrator, whether LIBOR will cease to be published or supported before or after 2021 or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. At this time, no consensus exists as to what rate or rates may become accepted alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of securities based on LIBOR such as our subordinated notes and our subordinated debentures and related trust preferred securities.

Uncertainty as to the nature of such potential changes, alternative reference rates, the replacement or disappearance of LIBOR or other reforms may adversely affect the value of and the return on our subordinated notes and our subordinated debentures and related trust preferred securities, as well as the interest we pay on those securities.

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At December 31, 2018, approximately 31.4% of our total loan portfolio was indexed to 30-day, 90-day, 180-day and one-year LIBOR. Many of our loan agreements that are indexed to LIBOR include provisions that do not require us to default to any alternative index recommendations but instead allow us, in our sole discretion, to designate an alternative interest rate index in the event that LIBOR should become unavailable or unstable. While we believe these provisions within our loan agreements address the potential future unavailability of LIBOR, there can be no assurance that such provisions will be effective or will not be challenged by our borrowers.

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

Pinnacle Financial and Pinnacle Bank collectively hold a 49% interest in BHG. While we have a significant stake in BHG, are entitled to designate two members of BHG's five person board of managers and in some instances have protective rights to block BHG from engaging in certain activities, including, until March 1, 2020, a sale of BHG (following March 1, 2020, the other managers can approve a sale of BHG without our consent), the other managers and members of BHG may make most decisions regarding BHG's operations without our consent or approval. Any sale of all or a portion of our interest in BHG would adversely affect our recurring noninterest income. Moreover, there are certain limitations on our ability to sell our interest in BHG without first offering BHG and the other members a right of first refusal, and we are prohibited from transferring any portion of our interest without the consent of the other members of BHG prior to March 1, 2021, other than transfers in connection with an acquisition of Pinnacle Financial or Pinnacle Bank or as a result of a change in applicable law that forces Pinnacle Financial and/or Pinnacle Bank to divest Pinnacle Financial's or Pinnacle Bank's ownership interests in BHG.

A significant portion of BHG's revenue (and correspondingly our interest in any of BHG's net profits) comes from the sale of loans originated by BHG to community banks. Moreover, the aggregate purchase price we paid to acquire our interest in BHG was based on our expectation that BHG will continue to grow its business and increase the amount of loans that it is able to originate and sell. In the event that BHG's loan growth slows over historical levels or its loan sales decrease (including but not limited to as a result of regulatory restrictions on banks that are the principal purchasers of BHG's loans), its results of operations and our non-interest income would be adversely affected. BHG currently operates in most states without the need for a permit or any other license. In the event that BHG was required to register or become licensed in any state in which it operates, or regulations are adopted that seek to limit BHG's ability to operate in any jurisdiction or that seek to limit the amounts of interest that BHG can charge on its loans, BHG's results of operations (and Pinnacle Financial's and Pinnacle Bank's interest in BHG's net profits) could be materially and adversely affected.

BHG's business may become subject to increased scrutiny by the FDIC or the Federal Reserve as it grows or as a result of our investment. The FDIC has published guidance related to the operation of marketplace lenders and banks' business relationships with such lenders and other third parties in which banks are required to exercise increased oversight and ongoing monitoring and other responsibility for such third parties' compliance with applicable regulatory guidance and requirements. As a result, we are subject to enhanced responsibility for and risk related to BHG and our relationship with it. BHG's compliance costs may increase and its loan yields may be negatively impacted, which would negatively impact its results of operations and Pinnacle Financial's and Pinnacle Bank's interest in BHG's net profits. If banks that are examined by the FDIC became restricted in their ability to buy loans originated by BHG, BHG's business would be negatively impacted, which would negatively impact our interest in BHG's profits.

BHG may expand its business into other types of lending, which may not be as profitable as BHG's current lending products or successful at all. In addition, if any such expansion includes consumer lending, BHG's compliance costs may increase as it would likely become subject to increased regulatory and compliance scrutiny. Failure to realize the expected revenue increases and/or other projected benefits from, and any increased compliance costs in connection with, any such expansion could have a negative impact on BHG's business, which would negatively impact our interest in BHG's profits.

Because of our ownership of a portion of BHG, BHG is limited in the types of activities in which it may engage. Were BHG to desire to expand its operations into areas that are not permissible for an entity owned by a state member bank like Pinnacle Bank, it may need to do so through separate entities in which we do not have an ownership interest. Were these businesses to be more profitable than BHG's core business or require BHG's management's attention in ways that are detrimental to BHG, our investment in BHG may be negatively impacted.

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

Since the 2008 financial crisis, financial institutions generally have been subjected to increased regulation and scrutiny from federal regulatory authorities. The U.S. Congress responded to the financial crisis by enacting a variety of statutes, in particular the Dodd-Frank Act, which contained numerous far-reaching changes and reforms for the financial services industry and directs federal regulatory agencies to issue regulations to implement these reforms. The Dodd-Frank Act also restructured the regulation of depository institutions, including the creation of the CFPB to administer consumer protection and fair lending laws, a function that was formerly performed by the depository institution regulators. The provisions of the Dodd-Frank Act and the rules adopted to implement those provisions have made far-reaching changes to the regulatory framework under which we operate and have had, and may continue to have, a material impact on our operations, particularly through increased regulatory burdens and compliance costs.

The Dodd-Frank Act and its implementing regulations impose various additional requirements on bank holding companies with $10 billion or more in total assets, including compliance with portions of the Federal Reserve's enhanced prudential oversight requirements. In addition, banks with $10 billion or more in total assets are primarily examined by the CFPB with respect to various federal consumer financial protection laws and regulations. Previously, Pinnacle Bank was subject to regulations adopted by the CFPB, but the FDIC was primarily responsible for examining our compliance with consumer protection laws and those CFPB regulations. As a relatively new agency with evolving regulations and practices, there is uncertainty as to how the CFPB's examination and regulatory authority might impact our business. Should the CFPB take issue with our operations or determine that we are not complying with applicable rules and regulations, we may incur additional costs (including personnel costs) which may be significant to comply with those rules and regulations for which the CFPB has oversight responsibility or fines for noncompliance.

Beginning on July 1, 2017 we became subject to the Durbin Amendment promulgated under the Dodd-Frank Act. Under the Durbin Amendment, interchange fees for debit card transactions are capped at $0.21 plus five basis points (plus $0.01 for fraud loss). This limitation on interchange fees has adversely impacted our results of operations and will continue to do so.

Ongoing compliance with our regulatory obligations may result in further increased regulatory compliance costs, fee reductions and restrictions on activities in which we may have otherwise engaged, any of which could have a material adverse effect on our business, financial condition or results of operations. Moreover, our failure to comply with these or other regulations could result in regulatory enforcement actions against us or make it more difficult to receive any required regulatory approvals necessary to execute on our growth strategy, each of which could have a material adverse effect on our results of operations, business or financial condition.

Future changes to the laws and regulations applicable to the financial industry, if enacted or adopted, may impact our profitability or financial condition, require more oversight or change certain of our business practices, and expose us to additional costs, including increased compliance costs. We cannot predict whether any such legislative or regulatory changes, including those that could benefit our business and results of operations, will be enacted or adopted or, if they are, whether they will have a material effect on us.

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

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

Under these rules, the leverage and risk-based capital ratios of bank holding companies may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The final rules include new minimum risk-based capital and leverage ratios. Moreover, these rules refine the definition of what constitutes “capital” for purposes of calculating those ratios, including the definitions of Tier 1 capital and Tier 2 capital. The minimum capital level requirements now applicable to bank holding companies and banks subject to the rules are: (i) a CET1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6%; (iii) a total capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4% for all institutions. The rules also establish a “capital conservation buffer” of 2.5% (that is now fully phased in as of January 1, 2019) above the new regulatory minimum risk-based capital ratios, and result in the following minimum ratios now that the capital conservation buffer is fully phased in: (i) a CET1 capital ratio of 7%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. We will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if our capital levels fall below these minimums plus the buffer amounts. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

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Under these rules, Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings, minority interest in the equity accounts of consolidated subsidiaries, and noncumulative preferred stock and related surplus, less goodwill and other specified intangible assets and other regulatory deductions. CET1 capital generally consists of common stock, retained earnings and paid in capital. CET1 capital is reduced by goodwill, certain intangible assets, net of associated deferred tax liabilities, deferred tax assets that arise from tax credit and net operating loss carryforwards, net of any valuation allowance, and certain other items specified in the Basel III capital rules. The Basel III capital rules also provide for a number of deductions from and adjustments to CET1 capital. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 capital to the extent that any one such category exceeds 10% of CET1 capital or all such categories in the aggregate exceed 15% of CET1 capital.

Tier 2 capital generally consists of perpetual preferred stock and related surplus not meeting the Tier 1 capital definition, qualifying subordinated debt, qualifying mandatorily convertible debt securities, and a limited amount of loan loss reserves. Cumulative preferred stock and trust preferred securities issued after May 19, 2010, no longer qualify as Tier 1 capital, but such securities issued prior to May 19, 2010, including in the case of bank holding companies with less than $15.0 billion in total assets at that date, trust preferred securities issued prior to that date, continue to count as Tier 1 capital subject to certain limitations. Following the merger with BNC and as a result of that merger, our total assets were in excess of $15.0 billion which caused the subordinated debentures we and BNC issued related to trust preferred offerings to cease to qualify as Tier 1 capital under applicable banking regulations. Though these securities no longer qualify as Tier 1 capital, we believe these subordinated debentures continue to qualify as Tier 2 capital. We may need to increase the level of Tier 1 capital we maintain through issuance of common stock or noncumulative perpetual preferred stock, which could cause dilution to our existing common shareholders.

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

The application of more stringent capital requirements for Pinnacle Financial and Pinnacle Bank, like those adopted to implement the Basel III reforms or future reforms, could, among other things, result in lower returns on invested capital, require the raising of additional capital, particularly in the form of common stock, make it more difficult for us to receive regulatory approvals related to our growth initiatives and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III either because we became subject to those requirements directly or because our regulators seek to propose additional on-balance sheet liquidity requirements on us, could result in our having to lengthen the term of our funding, restructure our business models and/or increase our holdings of liquid assets, which could adversely impact our results of operations.

Implementation of changes to asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy and could limit our ability to make distributions, including paying dividends or buying back shares.

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

Federal and state bank regulators require Pinnacle Financial and Pinnacle Bank to maintain adequate levels of capital to support operations. At December 31, 2018, Pinnacle Financial's and Pinnacle Bank's regulatory capital ratios were at "well-capitalized" levels under regulatory guidelines. Growth in assets (either organically or as a result of acquisitions) at rates in excess of the rate at which our capital is increased through retained earnings will reduce our capital ratios unless we continue to increase capital. Failure by us to meet applicable capital guidelines or to satisfy certain other regulatory requirements could subject us to a variety of enforcement remedies available to the federal regulatory authorities and would negatively impact our ability to pursue acquisitions or other expansion opportunities.

We may need to raise additional capital (including through the issuance of common stock) in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs or in connection with our growth or as a result of deterioration in our asset quality. Our ability to maintain capital levels, sources of funding and liquidity could be impacted by negative perceptions of our business or prospects, changes in the capital markets and deteriorating economic and market conditions. Pinnacle Bank is required to obtain regulatory approval in order to pay dividends to Pinnacle Financial unless the amount of such dividends does not exceed its net income for that calendar year plus retained net income for the preceding two years. Any restriction on the ability of Pinnacle Bank to pay dividends to Pinnacle Financial could impact Pinnacle Financial’s ability to continue to pay dividends on its common stock or its ability to pay interest on its indebtedness.

We cannot assure you that access to capital will be available to us on acceptable terms or at all. Any occurrence that may limit our access to the capital markets may materially and adversely affect our capital costs and our ability to raise capital and/or debt and, in turn, our liquidity. If we cannot raise additional capital when needed, our ability to expand through internal growth or acquisitions or to continue operations could be impaired.

We currently invest in bank owned life insurance ("BOLI") and may continue to do so in the future.

We had $525.7 million in general, hybrid and separate account BOLI contracts at December 31, 2018. BOLI is an illiquid long-term asset that provides tax savings because cash value growth and life insurance proceeds are not taxable. However, if we needed additional liquidity and converted the BOLI to cash, such transaction would be subject to ordinary income tax and applicable penalties. We are also exposed to the credit risk of the underlying securities in the investment portfolio and to the insurance carrier's credit risk (in a general account contract). If BOLI was exchanged to another carrier, additional fees would be incurred and a tax-free exchange could only be done for insureds that were still actively employed by us at that time. There is interest rate risk relating to the market value of the underlying investment securities associated with the BOLI in that there is no assurance that the market value of these securities will not decline. Investing in BOLI exposes us to liquidity, credit and interest rate risk, which could adversely affect our results of operations, financial condition and liquidity.

Our acquisitions and future expansion may result in additional risks.

From 2015 through 2017, we completed the acquisitions of CapitalMark, Magna, Avenue and BNC. We expect to continue to consider and explore opportunities to expand in our current markets and in select primarily high-growth markets located outside of Tennessee in the southeastern portion of the United States through additional branches and also may consider expansion within these markets through additional acquisitions of all or part of other financial institutions. These types of expansions involve various risks, including:

Management of Growth. We may be unable to successfully:
- maintain loan quality in the context of significant loan growth;
- identify and expand into suitable markets;
- obtain regulatory and other approvals;
- identify and acquire suitable sites for new banking offices;
- attract sufficient deposits and capital to fund anticipated loan growth;
- maintain adequate common equity and regulatory capital;
- scale our technology platform and operational infrastructure;
- avoid diversion or disruption of our existing operations or management as well as those of the acquired institution;
- maintain adequate management personnel and systems to oversee and support such growth;
- maintain adequate internal audit, loan review and compliance functions; and
- implement additional policies, internal controls, procedures and operating systems required to support such growth.

Results of Operations. There is no assurance that existing offices or future offices will maintain or achieve deposit levels, loan balances or other operating results necessary to avoid losses or produce profits. Our growth strategy necessarily entails growth in overhead expenses as we add new offices and staff. Our historical results may not be indicative of future results or results that may be achieved as we continue to evaluate opportunities to increase the number and concentration of our branch offices in our newer markets.

Development of offices. There are considerable costs involved in opening branches, and new branches generally do not generate sufficient revenues to offset their costs until they have been in operation for at least a year or more. Accordingly, any new branches we establish can be expected to negatively impact our earnings for some period of time until they reach certain economies of scale. The same is true for our efforts to expand in these markets with the hiring of additional seasoned professionals with significant experience in that market. Our expenses could be further increased if we encounter delays in opening any of our new branches. We may be unable to accomplish future branch expansion plans due to a lack of available satisfactory sites, difficulties in acquiring such sites, failure or inability to receive any required regulatory approvals, increased expenses or loss of potential sites due to complexities associated with zoning and permitting processes, higher than anticipated merger and acquisition costs or other factors. Finally, we have no assurance any branch will be successful even after it has been established or acquired, as the case may be.

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Regulatory and economic factors. Our growth and expansion plans may be adversely affected by a number of regulatory and economic developments or other events. Failure or inability to obtain required regulatory approvals, changes in laws and regulations or other regulatory developments and changes in prevailing economic conditions or other unanticipated events may prevent or adversely affect our continued growth and expansion. Such factors may cause us to alter our growth and expansion plans or slow or halt the growth and expansion process, which may prevent us from entering into or expanding in our targeted markets or allow competitors to gain or retain market share in our existing markets.

Infrastructure and Controls. We may not successfully implement improvements to, or integrate, our information and control systems, procedures and processes in an efficient or timely manner and may discover deficiencies in existing systems and controls. In particular, our systems, controls and procedures must be able to accommodate an increase in transaction volume and the infrastructure that comes with new products, branches, markets or any combination thereof. Thus, our growth strategy may divert management from our existing operation and may require us to incur additional expenditures to expand our administrative and operational infrastructure, which may adversely affect earnings, shareholder returns, and our efficiency ratio.

Failure to successfully address these and other issues related to our expansion could have a material adverse effect on our financial condition and results of operations, and could adversely affect our ability to successfully implement our business strategy. Also, if our growth occurs more slowly than anticipated or declines, our results of operations and financial condition could be materially adversely affected.

We may face risks with respect to future acquisitions.

When we attempt to expand our business through mergers and acquisitions (as we did from 2015 through 2017), we seek targets that are culturally similar to us, have experienced management and possess either significant market presence or have potential for improved profitability through economies of scale or expanded services. In addition to the general risks associated with our growth plans which are highlighted above, in general acquiring other banks, businesses or branches, particularly those in markets with which we are less familiar, involves various risks commonly associated with acquisitions, including, among other things:

- the time and costs associated with identifying and evaluating potential acquisition and merger targets;
- inaccuracies in the estimates and judgments used to evaluate credit, operations, culture, management and market risks with respect to the target institution;
- the time and costs of evaluating new markets, hiring experienced local management, including as a result of de novo expansion into a market, and opening new bank locations, and the time lags between these activities and the generation of sufficient assets and deposits to support the significant costs of the expansion that we may incur, particularly in the first 12 to 24 months of operations;
- our ability to finance an acquisition and possible dilution to our existing shareholders;
- the diversion of our management's attention to the negotiation of a transaction and integration of an acquired company's operations with ours;
- the incurrence of an impairment of goodwill associated with an acquisition and adverse effects on our results of operations;
- entry into new markets where we have limited or no direct prior experience;
- closing delays and increased expenses related to the resolution of lawsuits filed by our shareholders or shareholders of companies we may seek to acquire;
- the inability to receive regulatory approvals timely or at all, including as a result of community objections, or such approvals being restrictively conditional; and
- risks associated with integrating the operations, technologies and personnel of the acquired business.

Though we expect to remain principally focused on organically growing our business in our existing markets in 2019, we nonetheless may have opportunities to evaluate merger and acquisition opportunities that are presented to us in our current markets as well as other markets throughout the southeastern portion of the United States and conduct due diligence activities related to possible transactions with other financial institutions. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities and related capital raising transactions may occur at any time. Generally, acquisitions of financial institutions involve the payment of a premium over book and market values, and, therefore, some dilution of our book value and fully diluted earnings per share may occur in connection with any future transaction. Failure to realize the expected revenue increases, cost savings, increases in product presence and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations.

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In addition, we may face significant competition from numerous other financial services institutions, many of which may have greater financial resources than we do, when considering acquisition opportunities, particularly in our targeted high-growth markets located outside of Tennessee. Accordingly, attractive acquisition opportunities may not be available to us. There can be no assurance that we will be successful in identifying or completing any potential future acquisitions.

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

In addition to the traditional core deposits, such as demand deposit accounts, interest checking, money market savings and certificates of deposits less than $250,000, we utilize or in the past have utilized several noncore funding sources, such as brokered certificates of deposit, FHLB Cincinnati advances, federal funds purchased and other sources. Our dependence on our noncore funding has and will continue to fluctuate in future periods due to increased competition in our markets or as a result of our growth.

We utilize these noncore funding sources to fund the ongoing operations and growth of Pinnacle Bank. The availability of these noncore funding sources is subject to broad economic conditions, in some instances regulation, and to investor assessment of our financial strength and, as such, the cost of funds may fluctuate significantly and/or the availability of such funds may be restricted, thus impacting our net interest income, our immediate liquidity and/or our access to additional liquidity. We have somewhat similar risks to the extent high balance core deposits exceed the amount of deposit insurance coverage available.

We use brokered deposits, subject to certain limitations and requirements, as a source of funding to augment deposits generated from our branch network, which are our principal source of funding. In the event that our funding strategies call for the use of brokered deposits, there can be no assurance that such sources will be available, or will remain available, or that the cost of such funding sources will be reasonable. Additionally, should we no longer be considered well-capitalized, our ability to access new brokered deposits or retain existing brokered deposits could be affected by market conditions, regulatory requirements or a combination thereof, which could result in most, if not all, brokered deposit sources being unavailable. The inability to utilize brokered deposits as a source of funding could have an adverse effect on our results of operations, financial condition and liquidity.

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

An ineffective risk management framework could have a material adverse effect on our strategic planning and our ability to mitigate risks and/or losses and could have adverse regulatory consequences.

We have implemented a risk management framework to identify and manage our risk exposure. This framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, operational, capital, compliance, strategic and reputational risks. Our framework also includes financial, analytical, forecasting, or other modeling methodologies, which involves management assumptions and judgment. In addition, our board of directors, in consultation with management, has adopted a risk appetite statement, which sets forth certain thresholds and limits to govern our overall risk profile. However, there is no assurance that our risk management framework, including the risk metrics under our risk appetite statement, will be effective under all circumstances or that it will adequately identify, manage or mitigate any risk or loss to us. If our risk management framework is not effective, we could suffer unexpected losses and become subject to regulatory consequences, as a result of which our business, financial condition, results of operations or prospects could be materially adversely affected.

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

We are dependent upon information technologies, computer systems and networks, including those maintained by us and those maintained and provided to us by third parties, to conduct operations and are reliant on technology to help increase efficiency in our business. These systems could become unavailable or impaired from a variety of causes, including storms and other natural disasters, terrorist attacks, fires, utility outages, internal or external theft or fraud, design defects, human error or complications encountered as existing systems are maintained, replaced or upgraded. We maintain a system of internal controls and security to mitigate the risks of many of these occurrences and maintain insurance coverage for certain risks; however, should an event occur that is not prevented or detected by our internal controls, causes an interruption in service, or is uninsured against

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or in excess of applicable insurance limits, such occurrence could have an adverse effect on our business and our reputation, which, in turn, could have a material adverse effect on our financial condition, results of operations and liquidity.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify these systems as circumstances warrant, the security of our computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. We provide our customers the ability to bank remotely, including over the Internet or through their mobile device. The secure transmission of confidential information is a critical element of remote and mobile banking. Our network, and the systems of parties with whom we contract or on which we rely, as well as those of our customers and regulators, could be vulnerable to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches. Sources of attacks vary and may include hackers, disgruntled employees or vendors, organized crime, terrorists, foreign governments, corporate espionage and activists. In recent periods, there continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts.

Cybersecurity risks for banking organizations have significantly increased in recent years in part because of the proliferation of new technologies, and the use of the Internet and telecommunications technologies to conduct financial transactions. For example, cybersecurity risks may increase in the future as we continue to increase our mobile-payment and other internet-based product offerings and expand our internal usage of web-based products and applications. Even the most advanced internal control environment may be vulnerable to compromise. Targeted social engineering attacks are becoming more sophisticated and are extremely difficult to prevent. The techniques used by bad actors change frequently, may not be recognized until launched and may not be recognized until well after a breach has occurred. Additionally, the existence of cyber attacks or security breaches at third parties with access to our data, such as vendors, may not be disclosed to us in a timely manner. Consistent with industry trends, we remain at risk for attempted electronic fraudulent activity, as well as attempts at security breaches and cybersecurity-related incidents. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our vendors, regulators or customers involve the storage and transmission of confidential information, security breaches (including breaches of security of customer, vendor or regulator systems and networks) and viruses could expose us to claims, litigation and other possible liabilities, which may be significant. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could adversely affect our reputation, results of operations and ability to attract and maintain customers and businesses. In addition, a security breach could also subject us to additional regulatory scrutiny, expose us to civil litigation and possible financial liability and cause reputational damage.

In addition, we outsource many of our major systems, such as data processing, loan servicing and deposit processing systems. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If sustained or repeated, a system failure or service denial could result in a deterioration of our ability to process new and renewal loans, gather deposits and provide customer service, compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

We also face the risk of operational disruption, failure, termination, or capacity constraints of any of the third parties that facilitate our business activities, including vendors, exchanges, and other financial intermediaries. Such parties could also be the source or cause of an attack on, or breach of, our operational systems, data or infrastructure, and could disclose such attack or breach to us in a delayed manner or not at all. In addition, we may be at risk of an operational failure with respect to our customers' systems. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats and the continued uncertain global economic environment.

As cyber threats continue to evolve, we may be required to expend significant, additional resources to continue to modify or enhance our protective measures, investigate and remediate any information security vulnerabilities, or respond to any changes to state or federal regulations, policy statements or laws concerning information systems or security. Any failure to maintain adequate security over our information systems, our technology-driven products and services or our customers' personal and transactional information could negatively affect our business and our reputation and result in fines, penalties, or other costs, including litigation expense and/or additional compliance costs, all of which could have material adverse effect on our financial condition, results of operations and liquidity. Furthermore, the public perception that a cyber attack on our systems has been successful, whether or not this perception is correct, may damage our reputation with customers and third parties with whom we

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do business. A successful penetration or circumvention of system security could cause us negative consequences, including loss of customers and business opportunities, disruption to our operations and business, misappropriation or destruction of our confidential information and/or that of our customers, or damage to our customers' and/or third parties' computers or systems, and could result in a violation of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures, reputational damage, reimbursement or other compensatory costs, additional compliance costs, and could adversely impact our results of operations, liquidity and financial condition.

Our risk and exposure to cyber threats and other information security breaches is heightened as we expand our use of cloud technology and internet and mobile banking delivery channels for our products and services.

Environmental liability associated with commercial lending could result in losses.

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

We have acquired a number of retail banking facilities and other real properties, any of which may contain hazardous or toxic substances. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability.

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

Bank regulators are increasing regulatory scrutiny, and additional restrictions (including those originating from the Dodd-Frank Act) on financial institutions have been proposed or adopted by regulators and by Congress. Changes in tax law, federal legislation, regulation or policies, such as bankruptcy laws, deposit insurance, consumer protection laws, and capital requirements, among others, can result in significant increases in our expenses and/or charge-offs, which may adversely affect our results of operations and financial condition. Changes in state or federal tax laws or regulations can have a similar impact. State and municipal governments, including the State of Tennessee, could seek to increase their tax revenues through increased tax levies which could have a meaningful impact on our results of operations. Furthermore, financial institution regulatory agencies are expected to continue to be aggressive in responding to concerns and trends identified in examinations, including the continued issuance of additional formal or informal enforcement or supervisory actions. These actions, whether formal or informal, could result in our agreeing to limitations or to take actions that limit our operational flexibility, restrict our growth or increase our capital or liquidity levels. Failure to comply with any formal or informal regulatory restrictions, including informal supervisory actions, could lead to further regulatory enforcement actions. In addition, the issuance of certain regulatory enforcement actions against Pinnacle Financial or Pinnacle Bank could constitute an event of default under our loan agreement with U.S. Bank, which could cause the acceleration of any outstanding borrowings under the loan agreement and termination of the agreement.

Negative developments in the financial services industry and the impact of recently enacted or new legislation in response to those developments could negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance. In addition, industry, legislative or regulatory developments may cause us to materially change our existing strategic direction, capital strategies, compensation or operating plans.

Our business reputation and relationships are important and any damage to them could have a material adverse effect on our business.

Our reputation is very important in sustaining our business and we rely on our relationships with our current, former and potential clients and shareholders and other actors in the industries that we serve. Any damage to our reputation, whether arising from regulatory, supervisory or enforcement actions, matters affecting our financial reporting or compliance with SEC and exchange listing requirements, negative publicity, the way in which we conduct our business or otherwise could strain our existing relationships and make it difficult for us to develop new relationships. Any such damage to our reputation and relationships could in turn lead to a material adverse effect on our business.

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We face substantial competition and are subject to certain regulatory constraints not applicable to some of our competitors, which may decrease our growth or profits.

We face substantial competition for deposits, and for credit and trust relationships, and other financial services and products in the communities we serve. Competing providers include other banks, thrifts and trust companies, insurance companies, mortgage banking operations, credit unions, finance companies, title companies, money market funds and other financial and nonfinancial companies which may offer products functionally equivalent to those offered by us. Competing providers may have greater financial resources than we do and offer services within and outside the market areas we serve. In addition to this challenge of attracting and retaining customers for traditional banking services, our competitors include securities dealers, brokers, mortgage bankers, investment advisors and finance and insurance companies who seek to offer one-stop financial services to their customers that may include services that financial institutions have not been able or allowed to offer to their customers in the past. The increasingly competitive environment is primarily a result of changes in regulation, changes in technology and product delivery systems and the accelerating pace of consolidation among financial service providers. If we are unable to adjust both to increased competition for traditional banking services and changing customer needs and preferences, our financial performance could be adversely affected.

Some of our competitors, including credit unions, are not subject to certain regulatory constraints, such as the Community Reinvestment Act, which, among other things, requires us to implement procedures to make and monitor loans throughout the communities we serve. Credit unions also have federal tax exemptions that may allow them to offer lower rates on loans and higher rates on deposits than taxpaying financial institutions such as commercial banks. In addition, non-depository institution competitors are generally not subject to the extensive regulation applicable to institutions, like Pinnacle Bank, that offer federally insured deposits. Other institutions may have other competitive advantages in particular markets or may be willing to accept lower profit margins on certain products. These differences in resources, regulation, competitive advantages, and business strategy may decrease our net interest margin, may increase our operating costs, and may make it harder for us to compete profitably.

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

We have assembled a senior management team which has substantial background and experience in banking and financial services in our markets. Moreover, much of our organic loan growth that we have experienced in recent years (and that we are seeking in 2019 and beyond) was the result not of strong loan demand but rather of our ability to attract experienced financial services professionals who have been able to attract customers from other financial institutions. We are deploying a similar hiring strategy in the Carolinas and Virginia. Inability to retain these key personnel (including key personnel of the businesses we have acquired) or to continue to attract experienced lenders with established books of business (including, in either case, as a result of competitive compensation and other hiring and retention pressures), at all or at the pace we have anticipated, could negatively impact our growth because of the loss of these individuals' skills and customer relationships and/or the potential difficulty of promptly replacing them. Moreover, the higher costs we have to pay to hire and retain these experienced individuals could cause our noninterest expense levels to rise and negatively impact our results of operations.

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

We are from time to time subject to certain litigation in the ordinary course of our business. As we have aggressively hired new revenue producing associates over the last five years we, and the associates we have hired, have also periodically been the subject of litigation and threatened litigation with these associates' former employers. We may also be subject to claims related to our loan servicing programs, particularly those involving servicing of commercial real estate loans. These and other claims and legal actions, as well as supervisory and enforcement actions by our regulators, including the CFPB or other regulatory agencies with which we deal, including those with oversight of our loan servicing programs, could involve large monetary claims, capital directives, agreements with federal regulators, cease and desist orders and significant defense costs. The outcome of any such cases or actions is uncertain. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects.

In accordance with GAAP, for matters where a loss is not probable or the amount of the loss cannot be estimated, no accrual is established. For matters where it is probable we will incur a loss and the amount can be reasonably estimated, we establish an accrual for the loss. Once established, the accrual is adjusted periodically to reflect any relevant developments. The actual cost of any outstanding legal proceedings or threatened claims, however, may turn out to be substantially higher than the amount accrued. Further, our insurance may not cover all litigation, other proceedings or claims, or the costs of defense. Future developments could result in an unfavorable outcome for any existing or new lawsuits or investigations in which we are, or may become, involved, which may have a material adverse effect on our business and our results of operations.

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

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven solutions, and as customer preferences and expectations continue to evolve, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems, as well as nontraditional alternatives like crowdfunding and digital wallets. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. We have made significant investments in data processing, management information systems and internet banking accessibility. Our future success will depend in part upon our ability to create additional efficiencies in our operations through the use of technology. Many of our competitors have substantially greater resources to invest in technological improvements. We cannot make assurances that our technological improvements will increase our operational efficiency or that we will be able to effectively implement new technology-driven solutions or be successful in marketing these products and services to our customers.

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

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various regulatory agencies. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged on loans, interest rates paid on deposits and locations of offices. We are also subject to capital requirements established by our regulators, which require us to maintain specified levels of capital. It is possible that our FDIC assessments may increase in the future. Any future assessment increases could negatively impact our results of operations. Significant changes in laws and regulations applicable to the banking industry have been recently adopted and others are being considered in Congress. We cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of commercial banks and bank holding companies, our cost of compliance could adversely affect our ability to operate profitably.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and financial stability of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to various counterparties, including brokers and dealers, commercial and correspondent banks, and others. As a result, defaults by, or rumors or questions about, one or more financial services institutions, or the financial services industry generally, may result in market-wide liquidity problems and could lead to losses or defaults by such other institutions. Such occurrences could expose us to credit risk in the event of default of one or more counterparties and could have a material adverse effect on our financial position, results of operations and liquidity.

We depend on the accuracy and completeness of information about customers.

In deciding whether to extend credit or enter into certain transactions, we rely on information furnished by or on behalf of customers, including financial statements, credit reports, tax returns and other financial information. We may also rely on representations of those customers or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading personal information, financial statements, credit reports, tax returns or other financial information, including information falsely provided as a result of identity theft, could have an adverse effect on our business, financial condition and results of operations.

We may be subject to claims and litigation asserting lender liability.

From time to time, and particularly during periods of economic stress, customers, including real estate developers and consumer borrowers, may make claims or otherwise take legal action pertaining to performance of our responsibilities. These claims are often referred to as “lender liability” claims and are sometimes brought in an effort to produce or increase leverage against us in workout negotiations or debt collection proceedings. Lender liability claims frequently assert one or more of the following allegations: breach of fiduciary duties, fraud, economic duress, breach of contract, breach of the implied covenant of good faith and fair dealing, and similar claims. Whether customer claims and legal action related to the performance of our responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a favorable manner, they may result in significant financial liability and/or adversely affect our market reputation, products and services, as well as potentially affecting customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition, results of operations and liquidity.

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We may be subject to claims and litigation pertaining to fiduciary responsibility.

From time to time as part of our normal course of business, customers may make claims and take legal action against us based on actions or inactions related to the fiduciary responsibilities of Pinnacle Bank's trust and wealth management associates. If such claims and legal actions are not resolved in a manner favorable to us, they may result in financial liability and/or adversely affect our market reputation or our products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Natural disasters may adversely affect us.

Our operations and customer base are located in markets where natural disasters, including tornadoes, severe storms, fires, wildfires, floods, hurricanes and earthquakes often occur. Such natural disasters could significantly impact the local population and economies and our business, and could pose physical risks to our properties. Although our banking offices are geographically dispersed throughout portions of the southeastern United States and we maintain insurance coverages for such events, a significant natural disaster in or near one or more of our markets could have a material adverse effect on our financial condition, results of operations or liquidity.

Pinnacle Financial is required to act as a source of financial and managerial strength for Pinnacle Bank in times of stress.

Under federal law, Pinnacle Financial is required to act as a source of financial and managerial strength to Pinnacle Bank, and to commit resources to support Pinnacle Bank if necessary. Pinnacle Financial may be required to commit additional resources to Pinnacle Bank at times when Pinnacle Financial may not be in a financial position to provide such resources or when it may not be in Pinnacle Financial's, or its shareholders' or its creditors' best interests to do so. Providing such support is more likely during times of financial stress for Pinnacle Financial and Pinnacle Bank, which may make any capital Pinnacle Financial is required to raise to provide such support more expensive than it might otherwise be. In addition, any capital loans Pinnacle Financial makes to Pinnacle Bank are subordinate in right of payment to depositors and to certain other indebtedness of Pinnacle Bank. In the event of Pinnacle Financial's bankruptcy, any commitment by it to a federal banking regulator to maintain the capital of Pinnacle Bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Non-compliance with the USA PATRIOT Act, the Bank Secrecy Act or other laws and regulations could result in fines or sanctions against us.

The Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001, requires financial institutions to design and implement programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury Department's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions, including restrictions on conducting acquisitions or establishing new branches, as well as additional operating expenses to add staff and/or technological enhancements to our systems to better comply with our obligations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us, which could have a material adverse effect on our business, financial condition or results of operations.

The price of our common stock may be volatile or may decline.

The trading price of our common stock may fluctuate as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- actual or anticipated quarterly fluctuations in our results of operations and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts’ revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors;
- actions by institutional shareholders;
- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;

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- market perceptions about the innovation economy, including levels of funding or "exit" activities of companies in the industries we serve;
- proposed or adopted regulatory changes or developments;
- changes in the political climate;
- market reactions to social media messages or posts;
- anticipated or pending investigations, proceedings or litigation that involve or affect us; and
- domestic and international economic factors unrelated to our performance.

The trading price of the shares of our common stock and the value of our other securities will further depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, and future sales of our equity or equity-related securities. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. A significant decline in our stock price could result in substantial losses for individual shareholders and could lead to costly and disruptive securities litigation, as well as the loss of key employees.

Our ability to declare and pay dividends is limited.

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

Federal and state banking laws and regulations and state corporate laws restrict the amount of dividends we may declare and pay and that Pinnacle Bank may declare and pay to us. For example, Federal Reserve regulations implementing the capital rules required under Basel III do not permit dividends unless capital levels exceed certain higher levels applying capital conservation buffers.

In addition, the terms of (i) our subordinated debentures, (ii) the subordinated notes we assumed upon consummation of the Avenue merger, and (iii) the subordinated debentures and subordinated notes we assumed upon the consummation of the BNC merger, prohibit us from paying dividends on our common stock at times when we are deferring the payment of interest on such subordinated debentures or subordinated notes. Moreover, the terms of the loan agreement for Pinnacle Financial's line of credit prohibits us from paying dividends when there is an event of default existing under the loan agreement, or the payment of a dividend would cause an event of default.

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

We may issue additional shares of common stock, or securities convertible into, exchangeable for or representing rights to acquire shares of common stock, including in connection with acquisitions. We may sell these shares at prices below the current market price of shares, and the sale of these shares may significantly dilute shareholder ownership. We could also issue additional shares in connection with acquisitions of other financial institutions (as we did in connection with our acquisition of BNC and our other recent acquisitions) or investments in fee-related businesses such as BHG, which could also dilute shareholder ownership.

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

At December 31, 2018, Pinnacle Financial had outstanding trust preferred securities and accompanying junior subordinated debentures totaling $133.0 million. Payments of the principal and interest on the trust preferred securities are conditionally guaranteed by Pinnacle Financial, and the accompanying subordinated debentures are senior to shares of Pinnacle Financial's common stock. As a result, Pinnacle Financial must make payments on the subordinated debentures (and the related trust preferred securities) before any dividends can be paid on common stock and, in the event of Pinnacle Financial's bankruptcy, dissolution or liquidation, the holders of the subordinated debentures must be satisfied before any distributions can be made on Pinnacle Financial's common stock. Pinnacle Financial has the right to defer distributions on its junior subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid on its common stock.

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

From time to time, Pinnacle Financial and Pinnacle Bank have issued, and in connection with the Avenue merger and BNC merger, assumed, subordinated notes. At December 31, 2018, Pinnacle Financial and Pinnacle Bank had an aggregate of $339.9 million of subordinated notes outstanding, not including the subordinated debentures issued in connection with our trust preferred securities. The terms of these notes prohibit or will prohibit Pinnacle Financial or Pinnacle Bank, as applicable, from declaring or paying any dividends or distributions on its common stock at any time when payment of interest on these notes has not been timely made and while any such accrued and unpaid interest remains unpaid. Moreover, the notes we have issued or assumed rank senior to shares of Pinnacle Financial's common stock. In the event of any bankruptcy, dissolution or liquidation of Pinnacle Financial, these notes, along with Pinnacle Financial's other indebtedness, would have to be repaid before Pinnacle Financial's shareholders would be entitled to receive any of the assets of Pinnacle Financial.

Pinnacle Financial or Pinnacle Bank may from time to time issue additional subordinated indebtedness that would have to be repaid before Pinnacle Financial's shareholders would be entitled to receive any of the assets of Pinnacle Financial or Pinnacle Bank.

We identified a material weakness in our internal controls over financial reporting and determined that our disclosure controls and procedures were not effective. We may be unable to develop, implement and maintain effective internal control over financial reporting and disclosure controls and procedures in future periods.

The Sarbanes-Oxley Act and related rules and regulations require that management report annually on the effectiveness of our internal control over financial reporting and assess the effectiveness of our disclosure controls and procedures on a quarterly basis. Among other things, management must conduct an assessment of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act and related rules and regulations. Maintaining and adapting our internal controls is expensive and requires significant management attention. Moreover, as we continue to grow, our internal controls may become more complex and require additional resources to ensure they remain effective amid dynamic regulatory and other guidance. Failure to maintain effective controls or implement required new or improved controls or difficulties encountered in the process may harm our results of operations and financial condition or cause us to fail to meet our reporting obligations.

Based on management's assessment, we concluded that our disclosure controls and procedures were not effective as of December 31, 2018 and that we had as of such date a material weakness in our internal control over financial reporting. The specific issues leading to these conclusions are described in Part II - Item 9A. "Controls and Procedures" of this Form 10-K and in "Management's Report on Internal Control over Financial Reporting" appearing elsewhere in this Form 10-K. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements would not be prevented or detected on a timely basis. The material weakness identified in Item 9A did not result in any material misstatement in our consolidated financial statements and we have implemented remedial measures intended to address the material weaknesses and related disclosure controls. However, if the remedial measures we have implemented are insufficient, or if additional material weakness or significant deficiencies in our internal control over financial reporting or in our disclosure controls occur in the future, our future consolidated financial statements or other information filed with the SEC may contain material misstatements. Any material misstatements could require a restatement of our consolidated financial statements, cause us to fail to meet our reporting obligations or cause investors to lose confidence in our reported financial information, leading to a decline in the market value of our securities.

Our issuance of preferred stock could adversely affect holders of our common stock.

We have the ability under our current effective shelf registration statement to issue shares of preferred stock. Further, our shareholders authorized our board of directors to issue up to 10,000,000 shares of preferred stock without any further action on the part of our shareholders. Our board also has the power, without shareholder approval, to set the terms of any series of preferred stock that may be issued, including voting rights, dividend rights, preferences over our common stock with respect to dividends or in the event of a dissolution, liquidation or winding up, and other terms. In the event that we issue preferred stock in the future that has preference over our common stock with respect to payment of dividends or upon our liquidation, dissolution, or winding up, or if we issue debt securities, incur other borrowings or issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of the holders of our common stock or the market price of our common stock could be adversely affected.

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We and/or the holders of certain classes of our securities could be adversely affected by unfavorable ratings from rating agencies.

The ratings agencies regularly evaluate Pinnacle Financial and Pinnacle Bank, and their ratings of our long-term debt are based on a number of factors, including our financial strength as well as factors not entirely within our control, including conditions affecting the financial services industry generally. There can be no assurance that we will not receive adverse changes in our ratings in the future, which could adversely affect the cost and other terms upon which we are able to obtain funding, and the way in which we are perceived in the capital markets. Actual or anticipated changes, or downgrades in our credit ratings, including any announcement that our ratings are under review for a downgrade, could affect the market value and liquidity of our securities, increase our borrowing costs and negatively impact our profitability. Additionally, a downgrade of the credit rating of any particular security issued by us or our subsidiaries could negatively affect the ability of the holders of that security to sell the securities and the prices at which any such securities may be sold.

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

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

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

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

Our corporate organizational documents and the provisions of Tennessee law to which we are subject contain certain provisions that could have an anti-takeover effect and may delay, make more difficult or prevent an attempted acquisition of Pinnacle Financial that you may favor.

Our amended and restated charter, as amended, and bylaws, as amended, contain various provisions that could have an anti-takeover effect and may delay, discourage or prevent an attempted acquisition or change of control of Pinnacle Financial. These provisions include:

- a provision requiring our board of directors to take into account specific factors when considering an acquisition proposal;
- a provision that all extraordinary corporate transactions to which we are a party must be approved by a majority of the directors and a majority of the shares entitled to vote;
- a provision that any special meeting of our shareholders may be called only by our chairman, our chief executive officer, our president, our board of directors, or the holders of 25% of the outstanding shares of our voting stock that have held those shares for at least one year; and
-

a provision establishing certain advance notice procedures for nomination of candidates for election as directors at an annual or special meeting of shareholders at which directors are elected.

Additionally, our amended and restated charter, as amended, authorizes the board of directors to issue shares of our preferred stock without shareholder approval and upon such terms as the board of directors may determine. The issuance of our preferred stock, while providing desirable flexibility in connection with possible acquisitions, financings, and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a controlling interest in us. In addition, certain provisions of Tennessee law, including a provision which restricts certain business combinations between a Tennessee corporation and certain affiliated shareholders, may delay, discourage or prevent an attempted acquisition or change in control of our company.

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An investment in our common stock is not an insured deposit and is not guaranteed by the FDIC.

An investment in our common stock is not a bank deposit and, therefore, is not insured against loss or guaranteed by the FDIC, any other deposit insurance fund or by any other public or private entity. An investment in our common stock is inherently risky for the reasons described herein and our shareholders will bear the risk of loss if the value or market price of our common stock is adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's executive offices are located at 150 Third Avenue South, Suite 900, Nashville, Tennessee. At December 31, 2018, we conducted banking operations in 114 offices in four states. These offices include both owned and leased facilities as follows:

State	Owned	Leased	Total
Tennessee	27	20	47
North Carolina	30	8	38
South Carolina	12	9	21
Virginia	6	2	8
	75	39	114

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Pinnacle Financial's common stock is traded on the Nasdaq Global Select Market under the symbol "PNFP" and has traded on that market since July 3, 2006. As of February 22, 2019, Pinnacle Financial had approximately 4,936 stockholders of record.

In connection with the settlement of income tax liabilities associated with the Company's equity compensation plans and pursuant to the common stock share repurchase program approved by the Pinnacle Financial board of directors and announced during the fourth quarter of 2018, Pinnacle Financial repurchased shares of its common stock during the quarter ended December 31, 2018 as follows:

Period	Total Number of Shares Repurchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
October 1, 2018 to October 31, 2018	1,782	$ 55.27	—	$ —
November 1, 2018 to November 30, 2018	161,482	56.13	161,200	90,950,000
December 1, 2018 to December 31, 2018	244,000	47.69	244,000	79,314,000
Total	407,264	$ 51.12	405,200	$ 79,314,000

(1) During the quarter ended December 31, 2018, 48,225 shares of restricted stock previously awarded to certain of our associates vested. 40,306 of these shares that vested were subject to Section 83(b) elections made at the time the award was granted. For the remaining 7,919 restricted share awards which vested during the quarter ended December 31, 2018, we withheld 2,064 shares to satisfy tax withholding requirements associated with their vesting.

(2) On November 13, 2018, Pinnacle Financial announced that its board of directors authorized a share repurchase program for up to $100.0 million of Pinnacle Financial’s outstanding common stock. The repurchase program is scheduled to expire upon the earlier of Pinnacle Financial’s repurchase of shares of its common stock having an aggregate purchase price of $100.0 million and December 31, 2019. Pinnacle Financial repurchased 405,200 shares of its common stock at an aggregate cost of $20.7 million in the fiscal year ended December 31, 2018. Share repurchases may be made from time to time, on the open market or in privately negotiated transactions, at the discretion of the management of Pinnacle Financial, after the board of directors of Pinnacle Financial authorizes a repurchase program. The approved share repurchase program does not obligate Pinnacle Financial to repurchase any dollar amount or number of shares, and the program may be extended, modified, suspended, or discontinued at any time. Stock repurchases generally are affected through open market purchases, and may be made through unsolicited negotiated transactions. The timing of these repurchases will depend on market conditions and other requirements.

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ITEM 6. SELECTED FINANCIAL DATA

(dollars in thousands, except per share data)	2018	2017 [1]	2016 [2][3]	2015 [4][5]	2014
Total assets	$25,031,044	$22,205,700	$11,194,623	$8,714,544	$6,018,248
Loans, net of unearned income	17,707,549	15,633,116	8,449,925	6,543,235	4,590,026
Allowance for loan losses	83,575	67,240	58,980	65,432	67,359
Total securities	3,277,968	2,536,045	1,323,797	966,442	770,730
Goodwill, core deposit and other intangible assets	1,853,282	1,864,712	566,698	442,773	246,422
Deposits and securities sold under agreements to repurchase	18,953,848	16,586,964	8,845,014	7,050,498	4,876,600
Advances from FHLB	1,443,589	1,319,909	406,304	300,305	195,476
Subordinated debt and other borrowings	485,130	465,505	350,768	141,606	96,158
Stockholders' equity	3,965,940	3,707,952	1,496,696	1,155,611	802,693
Statement of Operations Data:					
Interest income	$946,717	$636,138	$363,609	$255,169	$206,170
Interest expense	210,375	92,831	38,615	18,537	13,185
Net interest income	736,342	543,307	324,994	236,632	192,985
Provision for loan losses	34,377	23,664	18,328	9,188	3,635
Net interest income after provision for loan losses	701,965	519,643	306,666	227,444	189,350
Noninterest income	200,870	144,903	121,003	86,530	52,602
Noninterest expense	452,887	366,560	236,285	170,877	136,300
Income before income taxes	449,948	297,986	191,384	143,098	105,653
Income tax expense	90,508	124,007	64,159	47,589	35,182
Net income	359,440	173,979	127,225	95,509	70,471
Per Share Data:					
Earnings per share available to common stockholders – basic	$4.66	$2.73	$2.96	$2.58	$2.03
Weighted average common shares outstanding – basic	77,111,372	63,760,578	43,037,083	37,015,468	34,723,335
Earnings per share available to common stockholders – diluted	$4.64	$2.70	$2.91	$2.52	$2.01
Weighted average common shares outstanding – diluted	77,449,917	64,328,189	43,731,992	37,973,788	35,126,890
Common dividends per share	$0.58	$0.56	0.56	0.48	0.32
Book value per common share	$51.18	$47.70	$32.28	$28.25	$22.45
Common shares outstanding at end of period	77,483,796	77,739,636	46,359,377	40,906,064	35,732,483
Performance Ratios:					
Return on average assets	1.53 %	1.02 %	1.27 %	1.36 %	1.27 %
Return on average stockholders' equity	9.37 %	6.26 %	9.47 %	10.06 %	9.33 %
Net interest margin	3.68 %	3.76 %	3.70 %	3.72 %	3.75 %
Net interest spread	3.35 %	3.53 %	3.46 %	3.55 %	3.65 %
Noninterest income to average assets	0.85 %	0.85 %	1.21 %	1.23 %	0.90 %
Noninterest expense to average assets	1.92 %	2.15 %	2.36 %	2.42 %	2.33 %
Efficiency ratio	48.32 %	53.26 %	52.98 %	52.88 %	55.50 %
Average loan to average deposit ratio	96.92 %	95.14 %	96.66 %	96.39 %	93.15 %
	132.69 %	136.10 %	139.39 %	142.77 %	142.64 %

Average interest-earning assets to average interest-bearing liabilities										
Average equity to average total assets ratio	16.29	%	16.32	%	13.40	%	13.47	%	13.46	%
Dividend payout ratio	13.79	%	20.00	%	19.31	%	18.97	%	16.67	%
Asset Quality Ratios:										
Allowance for loan losses to nonaccrual loans	95.15	%	117.00	%	213.90	%	222.90	%	403.20	%
Allowance for loan losses to total loans	0.47	%	0.43	%	0.70	%	1.00	%	1.47	%
Nonperforming assets to total assets	0.41	%	0.38	%	0.30	%	0.42	%	0.46	%
Nonperforming assets to total loans and other real estate	0.58	%	0.55	%	0.40	%	0.55	%	0.62	%
Net loan charge-offs to average loans	0.11	%	0.13	%	0.21	%	0.21	%	0.10	%
Capital Ratios:										
Common equity Tier 1 capital	9.58	%	9.14	%	7.86	%	8.61	%	10.10	%
Leverage	8.91	%	8.65	%	8.55	%	9.37	%	11.30	%
Tier 1 capital	9.58	%	9.14	%	8.64	%	9.63	%	12.10	%
Total capital	12.21	%	12.01	%	11.86	%	11.24	%	13.40	%

(1) Information for the 2017 fiscal year includes the operation of BNC from its acquisition date of June 16, 2017 and reflects approximately 27.7 million shares of Pinnacle Financial Common Stock issued in connection with the BNC merger and approximately 3.2 million shares issued in connection with a public offering consummated in January 2017.

(2) Information for the 2016 fiscal year includes the operations of Avenue from its acquisition date of July 1, 2016 and reflects approximately 3.8 million shares of Pinnacle Financial Common Stock issued in connection with the Avenue merger.

(3) Information for the 2016 fiscal year includes our additional 19% membership interest in BHG which we acquired in March 2016 and reflects approximately 861,000 shares of Pinnacle Financial Common Stock issued in connection with the additional investment in BHG.

(4) Information for the 2015 fiscal year includes the operations of CapitalMark from its acquisition date of July 31, 2015 and Magna from its acquisition date of September 1, 2015 and reflects approximately 3.3 million shares and 1.4 million shares of Pinnacle Financial Common Stock issued in connection with the CapitalMark merger and the Magna merger, respectively.

(5) Information for 2015 fiscal year includes our 30% membership interest in BHG which we acquired in February 2015.

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

The following is a discussion of our financial condition at December 31, 2018 and 2017 and our results of operations for each of the years in the three-year period ended December 31, 2018. The purpose of this discussion is to focus on information about our financial condition and results of operations which is not otherwise apparent from our consolidated financial statements. The following discussion and analysis should be read along with our consolidated financial statements and the related notes included elsewhere herein.

Overview

General. Our fully diluted net income per common share for the year ended December 31, 2018 was $4.64 compared to fully diluted net income per common share of $2.70 and $2.91 for the years ended December 31, 2017 and 2016, respectively. At December 31, 2018, loans had increased by $2.1 billion as compared to December 31, 2017. The comparability of our financial condition and performance has been impacted by the acquisitions we have completed as well as the passage of the Tax Cuts and Jobs Act in December 2017, in each case as discussed below.

Acquisitions. We acquired a 30% membership interest in Bankers Healthcare Group, LLC (BHG) on February 1, 2015 for $75.0 million in cash and acquired an additional 19% membership interest in BHG on March 1, 2016 for $74.1 million in cash and 860,470 shares of Pinnacle Financial common stock, with a fair value of $39.9 million on the date of the acquisition.

We acquired CapitalMark Bank and Trust (CapitalMark) on July 31, 2015 and Magna Bank (Magna) on September 1, 2015. We acquired Avenue Financial Holdings, Inc. and its wholly owned bank subsidiary, Avenue Bank (together, Avenue), on July 1, 2016. At the acquisition date, CapitalMark's net assets were fair valued at $73.2 million, including loans of $857.5 million and deposits valued at $953.2 million. At the acquisition date, Magna's net assets were fair valued at $49.1 million, including loans of $440.7 million and deposits valued at $452.7 million. At the acquisition date, Avenue's net assets were fair valued at $81.7 million, including loans of $952.5 million and deposits valued at $966.7 million. These acquisitions further expanded our franchise within our Tennessee market.

We acquired BNC Bancorp and its wholly owned bank subsidiary, Bank of North Carolina (together, BNC), on June 16, 2017. At acquisition date, BNC's net assets were fair valued at $602.7 million, including loans valued at $5.6 billion and deposits valued at $6.2 billion. This acquisition expanded our footprint into the Carolinas and Virginia.

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

Tax Cuts and Jobs Act. On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was signed into law. Among other items, the Tax Act reduced the corporate statutory tax rate from 35% to 21%, which resulted in a reduction of our blended statutory tax rate from 39.23% in 2017 to 26.14% in 2018. As a result of such decrease, we recognized a charge of $31.5 million in the fourth quarter of 2017 resulting from the revaluation of our deferred tax assets.

Results of operations. Our net interest income increased to $736.3 million for 2018 compared to $543.3 million for 2017 and $325.0 million for 2016. Much of this growth in net interest income was largely the result of our acquisition of BNC as well as continued organic growth subsequent to the merger. The net interest margin (the ratio of net interest income to average earning assets) for 2018 was 3.68% compared to 3.76% and 3.70% for 2017 and 2016, respectively.

Our provision for loan losses was $34.4 million for 2018 compared to $23.7 million in 2017 and $18.3 million in 2016. Provision expense for the year ended December 31, 2018 when compared to the comparable periods in 2017 and 2016 was impacted by organic loan growth and by charge-offs realized in our consumer portfolio, primarily related to non-prime automobile loans and our commercial and industrial portfolio. Our net charge-offs were $18.0 million during 2018 compared to $15.4 million in 2017 and $24.8 million in 2016. Additionally, in 2018, our provision expense was impacted by a $1.8 million provision for potential losses incurred in connection with Hurricane Florence that impacted operations in the Carolinas and Virginia.

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Our allowance for loan losses as a percentage of total loans increased from 0.43% at December 31, 2017 to 0.47% at December 31, 2018. The increase in the allowance as a percentage of total loans is primarily attributable to provision expense related to organic loan growth and new loan originations in our expanded footprint during 2018. The overall balance of our allowance for loan losses is impacted by fair value accounting on our acquired loan portfolios. At December 31, 2018, the remaining fair value discount for all acquired portfolios was $95.7 million. For loans acquired in connection with our acquisitions, the calculation of the allowance for loan losses subsequent to the acquisition date is consistent with that utilized for legacy Pinnacle Financial loans. Our accounting policy is to compare the computed allowance for loan losses on purchased loans to the remaining fair value adjustment at the individual loan level. Generally the fair value adjustments are expected to accrete to interest income over the remaining expected life of the underlying loan agreements and decrease proportionately with the related loan balance. However, if the computed allowance is greater than the remaining fair value adjustment, the excess is added to the allowance for loan losses by a provision for loan losses. Additional provisioning for purchased portfolios results from credit deterioration on the individual loan or from increased borrowings on loans and lines that existed as of the acquisition date. Should a loan with a remaining fair value discount be paid off prior to maturity, the remaining fair value discount is recognized as interest income in the period when the loan is paid off.

Noninterest income for 2018 compared to 2017 increased by $56.0 million, or 38.6%. Noninterest income for 2017 compared to 2016 increased by $23.9 million, or 19.8%. The increase in noninterest income from 2018 to 2017 and 2017 to 2016 was partially due to an increase in income from our investment in BHG, which was $51.2 million for the year ended December 31, 2018 compared to $38.0 million and $31.4 million for the years ended December 31, 2017 and December 31, 2016, respectively. The growth unrelated to our BHG investment in both comparable periods was attributable to our overall increase in our geographic footprint in those periods as well as increased transaction accounts and increased production in our fee-based products such as investments, insurance and trust resulting from both organic growth and our merger with BNC. Also impacting noninterest income was a $2.3 million net pre-tax loss on the sale of $169.9 million of investment securities in 2018 and an $8.3 million net pre-tax loss on the sale of $319.1 million of investment securities in 2017 as we sought to restructure a portion of our securities portfolio in each period in preparation for a flattening yield curve. The year-over-year decline in 2018 in net gains on the sale of mortgage loans was attributable to the impact of the interest rate environment on mortgage production during those periods. The year-over-year growth in 2017 in net gains on the sale of mortgage loans was attributable to increased volumes due to our acquistion of BNC.

Noninterest expense for 2018 compared to 2017 increased by $86.3 million, or 23.6%, primarily due to the inclusion of our expanded footprint in the Carolinas and Virginia for all of 2018 compared to just over six months of operations in 2017. With the exception of OREO and merger-related expenses, we realized increases in all noninterest expense categories. Salaries and employee benefits expense increased $62.0 million, primarily resulting from annual merit increases awarded in the first quarter of 2018 as well as the increase in our associate base primarily as a result of our merger with BNC, including their participation in the 2018 annual incentive program as compared to 2017, and continued hiring of experienced bankers throughout our footprint. We also realized increases in equipment and occupancy costs of $20.2 million in 2018 versus 2017 due to our expanded footprint. Additionally, other noninterest expense, which includes deposit and lending related expenses, investment and trust sales expenses and administrative expenses, increased $20.9 million in 2018 compared to 2017. Offsetting these increases was a decrease in merger-related expenses of $23.6 million in 2018 compared to 2017. There were no merger-related expenses recorded in the second half of 2018. Noninterest expense for 2017 compared to 2016 increased by $130.3 million, or 55.1%, primarily due to an increase in salaries and employee benefits expense. Salaries and employee benefits expense increased $68.8 million, resulting from annual merit increases awarded in the first quarter of 2017 as well as the increase in our associate base primarily as a result of our mergers with Avenue and BNC. We also realized increases in equipment and occupancy costs due to our merger with BNC. Additionally, merger-related expense accounted for approximately $31.8 million of non-interest expense for the year ended December 31, 2017 compared to $11.7 million of merger-related expense during the same period in 2016. Among other items, merger-related expense for the years ended December 31, 2017 and 2016 includes the costs of technical conversions which were completed in the third quarter of 2016 for Avenue and in the fourth quarter of 2017 for BNC. Certain associate-related expenses such as retention bonuses are also included in merger-related expenses for all periods.

The number of full-time equivalent employees increased from 1,179.5 at December 31, 2016 to 2,132.0 at December 31, 2017 and 2,297.0 at December 31, 2018.

During the three years ended December 31, 2018, 2017 and 2016, we recorded income tax expense of $90.5 million, $124.0 million and $64.2 million, respectively. Income tax expense for 2018 was impacted by the reduction in the statutory federal income tax rate from 35% to 21% as a result of the Tax Act, which was signed into law in December 2017. The Tax Act also impacted income tax expense for the year ended December 31, 2017 as our deferred tax assets were revalued as a result of such rate change, resulting in a charge of $31.5 million.

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Our effective tax rate for the years ended December 31, 2018, 2017 and 2016, was 20.1%, 41.6% and 33.5%, respectively. Our effective tax rate differs from the combined federal and state income tax statutory rate primarily due to our investments in bank-qualified municipal securities, tax benefits from our real estate investment trust subsidiary, participation in Tennessee's Community Investment Tax Credit (CITC) program, tax benefits associated with bank-owned life insurance and tax savings from our captive insurance subsidiary, offset in part by the limitation on deductibility of meals and entertainment expense, certain merger-related expenses and, in 2018, non-deductible FDIC insurance premiums and non-deductible executive compensation.We also recorded tax benefits associated with our equity-based compensation program pursuant to the adoption of ASU 2016-09 for the years ended December 31, 2018 and 2017, resulting in the recognition of $3.0 million and $5.4 million of tax benefits, respectively. Prior to the adoption of ASU 2016-09, these tax benefits were recorded in the statement of stockholders' equity directly to additional paid-in-capital.

Our efficiency ratio (the ratio of noninterest expense to the sum of net interest income and noninterest income) was 48.3%, 53.3% and 53.0% for the three years ended December 31, 2018, 2017 and 2016, respectively. The efficiency ratio measures the amount of expense that is incurred to generate a dollar of revenue. The efficiency ratio improved in 2018 primarily due to the completion in 2018 of the integration and technology conversion associated with the acquisition of BNC and the growth in net interest income and noninterest income.

Net income for 2018 was $359.4 million compared to $174.0 million in net income for 2017 and $127.2 million in net income in 2016. Fully-diluted net income per common share was $4.64 for 2018 compared to $2.70 for 2017 and $2.91 for 2016. Net income and fully-diluted net income per common share in 2017 were each significantly and negatively impacted by the $31.5 million charge resulting from the revaluation of our deferred tax assets following the passage of the Tax Act, while net income and fully-diluted net income per common share in 2018 benefited from the reduced rate under the Tax Act.

Financial Condition. Our loan balances increased by $2.07 billion during 2018 compared to an increase of $7.18 billion during 2017. The increase in our outstanding loan balances during 2018 is largely due to the continued economic growth in our core markets, increases in the number of relationship managers, primarily in our commercial lending program, and increased focus on attracting new customers to our company. During 2017, the increase was primarily the result of our acquisition of BNC in addition to organic growth caused by similar factors that resulted in growth in 2018.

Total deposits increased from $16.45 billion at December 31, 2017 to $18.85 billion at December 31, 2018. Within our deposits, the ratio of core funding to total deposits decreased slightly from 80.8% at December 31, 2017 to 79.0% at December 31, 2018.

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

Capital and Liquidity. At December 31, 2018 and 2017, our capital ratios, including our bank's capital ratios, exceeded regulatory minimum capital requirements and those necessary to be considered well-capitalized under applicable federal regulations. From time to time, we may be required to support the capital needs of our bank subsidiary. At December 31, 2018, we had approximately $94.0 million of cash at the holding company which could be used to support our bank. We believe we have various capital raising techniques available to us to provide for the capital needs of our bank, including an established line of credit with another bank that can be utilized to provide up to $75 million of additional capital support to Pinnacle Bank, if needed.

In January 2017, we completed a public offering of 3.22 million shares of our common stock in a transaction that resulted in net proceeds to us, after deducting underwriting discounts and commissions and other expenses payable by us, of approximately $191.2 million. We contributed $185.0 million of these net proceeds to our bank subsidiary.

On November 13, 2018, we announced that our board of directors had authorized a share repurchase program for up to $100.0 million of our outstanding common stock. The repurchase program is scheduled to expire upon the earlier of our repurchase of shares of our common stock having an aggregate purchase price of $100.0 million and December 31, 2019. We repurchased 405,200 shares of our common stock at an aggregate cost of $20.7 million in 2018.

Critical Accounting Estimates

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

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Allowance for Loan Losses (allowance). Our management assesses the adequacy of the allowance prior to the end of each calendar quarter. This assessment includes procedures to estimate the allowance and test the adequacy and appropriateness of the resulting balance. The level of the allowance is based upon management's evaluation of the loan portfolio, loan loss experience, asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay the loan (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations. The level of allowance maintained is believed by management to be adequate to absorb probable losses inherent in the loan portfolio at the balance sheet date. The allowance is increased by provisions charged to expense and decreased by charge-offs, net of recoveries of amounts previously charged-off. Allocation of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, is deemed to be uncollectible.

Our allowance for loan loss assessment methodology was modified during the year ended December 31, 2017 to (i) extend the lookback period from 24 quarters to a period beginning January 1, 2006 to better capture the risk associated with this extended economic cycle, (ii) eliminate the use of risk ratings in the calculation of the loss rate and instead focus on loss rate by loan type and (iii) expand the economic variables used in the qualitative assessment to incorporate our expanded footprint. We also eliminated the use of a loss emergence period in light of the minimal population of losses available to evaluate that were previously being extrapolated to the full population of loans, and shifted the focus of our analysis to more of a quantitative model. There was no material impact on the adoption of the change in the allowance for loan loss assessment methodology.

Our allowance for loan losses is composed of the result of two independent analyses pursuant to the provisions of ASC 450-20, Loss Contingencies and ASC 310-10-35, Receivables. The ASC 450-20 analysis is intended to quantify the inherent risks in our performing loan portfolio. The ASC 310-10-35 analysis includes a loan-by-loan analysis of impaired loans, including those reported as nonaccrual, troubled-debt restructurings and purchase credit impaired.

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

The ASC 450-20 component of the allowance for loan losses begins with a historical loss rate calculation for each loan pool with similar risk characteristics. The losses realized over a rolling four-quarter cycle are utilized to determine an annual loss rate for each loan pool for each quarter-end in our look-back period. The look-back period in our loss rate calculation begins with January 2006, as we believe the period from January 1, 2006 to present is more representative of this economic cycle. The loss rates for each category are then averaged and applied to the end of period loan portfolio balances to determine estimated losses. The loss rates provide a quantitative estimate of credit losses inherent in our end of period loan portfolio based on our actual loss experience.

The estimated loan loss allocation for all loan segments also considers management's estimate of probable losses for a number of qualitative factors that have not been considered in the quantitative analysis. The qualitative categories and the measurements used to quantify the risks within each of these categories are subjectively selected by management, but measured by objective measurements period over period. The data for each measurement may be obtained from internal or external sources. The current period measurements are evaluated and assigned a factor commensurate with the current level of risk relative to past measurements over time. The resulting factor is applied to the non-impaired loan portfolio. This amount represents estimated probable inherent credit losses which exist, but have not yet been identified either in our risk rating or impairment process, as of the balance sheet date, and is based upon quarterly trend assessments in portfolio concentrations, policy exceptions, economic conditions, associate retention, independent loan review results, collateral considerations, credit quality, competition and regulatory requirements, enterprise wide risk assessments, and peer group credit quality. The qualitative allowance allocation, as determined by the processes noted above, is increased or decreased for each loan segment based on the assessment of these various qualitative factors.

The allowance for loan losses for purchased loans is calculated similarly to that utilized for our legacy loans. Our accounting policy is to compare the computed allowance for loan losses for purchased loans to any remaining fair value adjustment on a loan-by-loan basis. If the computed allowance is greater than the remaining fair value adjustment, the excess is added to the allowance for loan losses by a provision for loan losses.

The ASC 450-20 portion of the allowance also includes a small unallocated component. We believe that the unallocated amount is warranted for inherent factors that cannot be practically assigned to individual loan categories, such as the imprecision in the overall loss allocation measurement process, the subjectivity risk of not considering all relevant environmental categories and related measurements and imprecision in our credit risk ratings process. The appropriateness of the unallocated component of the allowance is assessed each quarter end based upon changes in the overall business environment not otherwise captured.

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The impaired loan allowance is determined pursuant to ASC 310-10-35. Loans are impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Collection of all amounts due according to the contractual terms means collecting all interest and principal payments of a loan as scheduled in the loan agreement. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. Loan losses are charged off when management believes that the full collectability of the loan is unlikely. A loan may be partially charged-off after a "confirming event" has occurred which serves to validate that full repayment pursuant to the terms of the loan is unlikely.

An impairment allowance is recognized if the fair value of the loan is less than the recorded investment in the loan (recorded investment in the loan is the principal balance plus any accrued interest, net of deferred loan fees or costs and unamortized premium or discount). The impairment is recognized through the provision for loan losses and is a component of the allowance. Loans that are impaired are recorded at the present value of expected future cash flows discounted at the loan's effective interest rate, or if the loan is collateral dependent, at the fair value of the collateral, less estimated disposal costs. If the loan is collateral dependent, the principal balance of the loan is charged-off in an amount equal to the impairment measurement. The fair value of collateral dependent loans is derived primarily from collateral appraisals performed by independent third-party appraisers. Management believes it follows appropriate accounting and regulatory guidance in determining impairment and accrual status of impaired loans. This analysis is completed for all individual loans greater than $750,000. The resulting allowance percentage by segment adjusted for specific trends identified, if applicable, is then applied to the remaining population of impaired loans.

Pursuant to the guidance set forth in ASU 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring, the above impairment methodology is also applied to those loans identified as troubled debt restructurings.

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

While our policies and procedures used to estimate the allowance for loan losses, as well as the resultant provision for loan losses charged to operations, are considered adequate by management and are reviewed from time to time by our regulators, they are necessarily approximate and inherently imprecise. There are factors beyond our control, such as conditions in the local, national, and international economy, a local real estate market or particular industry conditions which may materially negatively impact our asset quality and the adequacy of our allowance for loan losses and thus the resulting provision for loan losses.

Effective January 1, 2020, management will adopt ASU 2016-13, Financial Instruments - Measurement of Current Expected Credit Losses on Financial Instruments (CECL), which will modify the accounting for the allowance for loan losses from an incurred loss model to an expected loss model, as discussed more fully under "Part II - Item 8. Financial Statements and Supplementary Data - Note 1. Summary of Significant Accounting Policies" of this Report for further information.

Impairment of Goodwill. Goodwill is evaluated for impairment annually and more frequently if events and circumstances indicate that the asset might be impaired. ASC 350, Intangibles — Goodwill and Other, provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity does a qualitative assessment and determines it is necessary, or if a qualitative assessment is not performed, it is required to perform a two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If, based on a qualitative assessment, an entity determines that the fair value of a reporting unit is more than its carrying amount, the two-step goodwill impairment test is not required. The results of our qualitative assessment as of September 30, 2018, our annual assessment date, indicated that the fair value of our reporting unit was more than its carrying value, and accordingly, the two-step goodwill impairment test was not performed.

Should our common stock price decline or other impairment indicators become known, additional impairment testing of goodwill may be required. Should it be determined in a future period that the goodwill has become impaired, then a charge to earnings will be recorded in the period such determination is made. While we believe that the assumptions utilized in our testing were appropriate, they may not reflect actual outcomes that could occur. Specific factors that could negatively impact the assumptions used include the following: a change in the control premium being realized in the market or a meaningful change in the number of mergers and acquisitions occurring; the amount of expense savings that may be realized in an acquisition scenario; significant fluctuations in our asset/liability balances or the composition of our balance sheet; a change in the overall valuation of the stock market, specifically bank stocks; performance of Southeast U.S. Banks; and Pinnacle Financial's performance relative to peers. Changing these assumptions, or any other key assumptions, could have a material impact on the amount of goodwill impairment, if any.

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Results of Operations

The following is a summary of our results of operations for 2018, 2017 and 2016 (in thousands except per share data):

	Years ended December 31,		2018-2017 Percent Increase	Year ended December 31,	2017-2016 Percent Increase
	2018	2017	(Decrease)	2016	(Decrease)
Interest income	$946,717	$636,138	48.82 %	$363,609	74.95 %
Interest expense	210,375	92,831	126.62 %	38,615	140.40 %
Net interest income	736,342	543,307	35.53 %	324,994	67.17 %
Provision for loan losses	34,377	23,664	45.27 %	18,328	29.11 %
Net interest income after provision for loan losses	701,965	519,643	35.09 %	306,666	69.45 %
Noninterest income	200,870	144,903	38.62 %	121,003	19.75 %
Noninterest expense	452,887	366,560	23.55 %	236,285	55.13 %
Net income before income taxes	449,948	297,986	51.00 %	191,384	55.70 %
Income tax expense	90,508	124,007	(27.01)%	64,159	93.28 %
Net income	$359,440	$173,979	106.60 %	$127,225	36.75 %
Basic net income per common share	$4.66	$2.73	70.70 %	$2.96	(7.77)%
Diluted net income per common share	$4.64	$2.70	71.85 %	$2.91	(7.22)%

Net Interest Income. Net interest income represents the amount by which interest earned on various earning assets exceeds interest paid on deposits and other interest bearing liabilities and is the most significant component of our revenues. For the year ended December 31, 2018, we recorded net interest income of approximately $736.3 million, which resulted in a net interest margin of 3.68%. For the year ended December 31, 2017, we recorded net interest income of approximately $543.3 million, which resulted in a net interest margin of 3.76%. For the year ended December 31, 2016, we recorded net interest income of approximately $325.0 million, which resulted in a net interest margin of 3.70%. These increases in net interest income were attributable to the growth in our loan portfolio due to our mergers with BNC and Avenue, organic growth, and an increase in the interest rates we receive on interest earning assets offset in part by increases in the volume and the rates we pay on deposits and our other funding sources.

The following table sets forth the amount of our average balances, interest income or interest expense for each category of interest-earning assets and interest-bearing liabilities and the average interest rate for total interest-earning assets and total interest-bearing liabilities, net interest spread and net interest margin for each of the years in the three-year period ended December 31, 2018 (in thousands):

	2018 Average Balances	Interest	Rates/ Yields	2017 Average Balances	Interest	Rates/ Yields	2016 Average Balances	Interest	Rates/ Yields
Interest-earning assets:									
Loans [(1)] [(2)]	$16,899,738	$850,472	5.09%	$12,254,790	$578,286	4.79%	$7,586,346	$335,735	4.51%
Securities:									
Taxable	1,804,958	48,192	2.67%	1,724,612	39,060	2.26%	937,710	19,179	2.05%
Tax-exempt [(2)]	1,202,143	35,995	3.58%	488,478	13,712	3.76%	201,842	6,014	4.00%
Federal funds sold and other	518,923	12,058	2.32%	335,491	5,080	1.51%	293,542	2,681	0.91%
Total interest-earning assets	20,425,762	946,717	4.71%	14,803,371	636,138	4.38%	9,019,440	363,609	4.06%
Nonearning assets:									
Intangible assets	1,859,183			1,273,577			509,899		
Other nonearning assets	1,269,083			939,269			495,554		
	$23,554,028			$17,016,217			$10,024,893		
Interest-bearing liabilities:									
Interest-bearing deposits:									
Interest bearing demand deposits	$835,929	$9,774	1.17%	$583,052	$3,926	0.67%	$303,390	$1,147	0.38%
Interest checking	2,228,399	18,993	0.85%	1,745,298	7,335	0.42%	1,161,281	2,993	0.26%
Savings and money market	6,994,938	73,431	1.05%	5,455,607	32,844	0.60%	3,426,842	14,289	0.42%
Time deposits	3,070,071	48,845	1.59%	1,765,089	15,479	0.88%	777,343	5,489	0.71%
Total interest-bearing deposits	13,129,337	151,043	1.15%	9,549,046	59,584	0.62%	5,668,856	23,918	0.42%
Securities sold under agreements to repurchase	129,899	588	0.45%	119,055	406	0.34%	75,981	185	0.24%
Federal Home Loan Bank advances	1,663,968	34,174	2.05%	788,237	12,399	1.57%	481,711	4,136	0.86%
Subordinated debt and other borrowings	470,189	24,570	5.23%	420,790	20,443	4.86%	243,905	10,376	4.25%
Total interest-bearing liabilities	15,393,393	210,375	1.37%	10,877,128	92,832	0.85%	6,470,453	38,615	0.60%
Noninterest-bearing deposits	4,305,942	—	0.00%	3,331,741	—	0.00%	2,179,398	—	0.00%
Total deposits and interest-bearing liabilities	19,699,335	210,375	1.07%	14,208,869	92,832	0.65%	8,649,851	38,615	0.45%
Other liabilities	18,281			30,218			31,349		
Stockholders' equity	3,836,412			2,777,130			1,343,693		
	$23,554,028			$17,016,217			$10,024,893		
Net interest income		$736,342			$543,306			$324,994	
Net interest spread [(3)]			3.35%			3.53%			3.46%
Net interest margin [(4)]			3.68%			3.76%			3.70%

(1) Average balances of nonperforming loans are included in average loan balances.

(2) Yields computed on tax-exempt instruments on a tax equivalent basis and include $16.2 million, $12.3 million and $8.7 million for the years ended December 31, 2018, 2017 and 2016, respectively. The tax-exempt benefit has been

reduced by the projected impact of tax-exempt income that will be disallowed pursuant to IRS Regulations for the period presented.

(3) Yields realized on interest-bearing assets less the rates paid on interest-bearing liabilities. The net interest spread calculation excludes the impact of demand deposits. Had the impact of demand deposits been included, the net interest spread for the year ended December 31, 2018 would have been 3.65% compared to a net interest spread for the years ended December 31, 2017 and 2016 of 3.73% and 3.61%, respectively.

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

For the year ended December 31, 2018, our net interest spread was 3.35%, while the net interest margin was 3.68% compared to a net interest spread of 3.53% for the year ended December 31, 2017 and 3.46% for the year ended December 31, 2016, and a net interest margin of 3.76% and 3.70%, respectively. Although our net interest margin was positively impacted by yield expansion in our earning asset portfolio, these increases were offset by increases in our total funding costs.

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The expansion of our earning asset yields was driven in part by the impact of Federal funds rate increases, which positively impacted our floating and variable rate loan and investment portfolios. During the year-ended December 31, 2018, our earning asset yield increased by 33 basis points and 65 basis points, from the years ended December 31, 2017 and 2016, respectively, while total funding rates increased by 42 basis points and 62 basis points compared to the years ended December 31, 2017 and 2016, respectively. The increase in our core funding costs was primarily caused by higher prevailing market interest rates and increased FHLB borrowings which have higher interest rates than our deposits. The application of fair value accounting on the BNC accounts we acquired also positively impacted our net interest margin in 2018 and 2017, but will continue to become less impactful in future periods.

We continue to deploy various asset liability management strategies to manage our risk to interest rate fluctuations. Although the rise in interest rates over the last two years has lifted the yields we receive on earning assets, pricing for creditworthy borrowers and meaningful depositors is very competitive in our markets and this competition has adversely impacted, and may continue to adversely impact our margins. Although we believe our net interest margin should remain relatively stable in 2019, we do anticipate that this challenging competitive environment will continue in 2019. We also expect the impact of purchase accounting on our net interest income will continue to lessen in future periods, which will negatively affect our net interest margin in 2019. More importantly, we believe our net interest income should continue to increase in 2019 compared to 2018 primarily due to an increase in average earning asset volumes, including both loans and our securities portfolio. We seek to fund these increased earning assets by growing our core deposits, but will utilize noncore funding to fund a shortfall, if any.

Rate and Volume Analysis. Net interest income increased by $193.0 million between the years ended December 31, 2017 and 2018 and by $218.3 million between the years ended December 31, 2016 and 2017. The following is an analysis of the changes in our net interest income comparing the changes attributable to rates and those attributable to volumes (in thousands):

	2018 Compared to 2017 Increase (decrease) due to			2017 Compared to 2016 Increase (decrease) due to		
	Rate	Volume	Net	Rate	Volume	Net
Interest-earning assets:						
Loans	$43,386	$228,800	$272,186	$26,745	$215,806	$242,551
Securities:						
Taxable	7,195	1,937	9,132	2,901	16,980	19,881
Tax-exempt	(2,575)	24,858	22,283	(1,837)	9,535	7,698
Federal funds sold	3,551	3,427	6,978	1,896	503	2,399
Total interest-earning assets	51,557	259,022	310,579	29,705	242,824	272,529
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest bearing demand deposits	3,608	2,240	5,848	1,372	1,407	2,779
Interest checking	8,674	2,984	11,658	2,401	1,941	4,342
Savings and money market	28,261	12,326	40,587	8,326	10,229	18,555
Time deposits	17,969	15,397	33,366	2,225	7,765	9,990
Total deposits	58,512	32,947	91,459	14,324	21,342	35,666
Securities sold under agreements to repurchase	138	44	182	99	122	221
Federal Home Loan Bank advances	6,134	15,641	21,775	4,693	3,570	8,263
Subordinated debt and other borrowings	1,643	2,484	4,127	2,048	8,018	10,066
Total interest-bearing liabilities	66,427	51,116	117,543	21,164	33,052	54,216
Net interest income	$(14,870)	$207,906	$193,036	$8,541	$209,772	$218,313

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

Provision for Loan Losses. The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in management's evaluation, we believe to be adequate to provide coverage for the inherent losses on outstanding loans. The provision for loan losses amounted to approximately $34.4 million, $23.7 million and $18.3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

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

Provision expense for the year ended December 31, 2018 has increased as compared to 2017 and continued to be negatively impacted due to charge-offs realized in our consumer portfolio, primarily related to non-prime automobile loans and in 2018, our commercial and industrial portfolio. Additionally, in 2018, our provision expense was impacted by a $1.8 million provision for potential losses incurred in connection with Hurricane Florence that impacted operations in the Carolinas and Virginia. Provision expense for the year ended December 31, 2017 increased as compared to 2016 and was negatively impacted due to charge-offs realized in our consumer portfolio, primarily related to non-prime automobile loans. The balance of our non-prime automobile portfolio was $6.3 million at December 31, 2018 compared to $21.8 million at December 31, 2017 and $30.0 million at December 31, 2016. We expect the percentage of our loan portfolio represented by non-prime automobile loans will continue to decrease in 2019.

Our allowance for loan losses is adjusted to an amount deemed appropriate to adequately cover probable losses in the loan portfolio based on our allowance for loan loss methodology. Our allowance for loan losses as a percentage of loans increased from 0.43% at December 31, 2017 to 0.47% at December 31, 2018. The increase in the allowance as a percentage of total loans is primarily attributable to provision expense associated with organic loan growth and new loan originations in our expanded footprint during 2018. The absolute level of our allowance for loan losses is largely driven by continued favorable credit experienced in our larger portfolios and we believe it is supported by the strong economies presently in place in the markets in which we operate.

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

The following is our noninterest income for the years ended December 31, 2018, 2017, and 2016 (in thousands):

	Years ended December 31,		2018-2017 Percent Increase	Year ended December 31,	2017-2016 Percent Increase
	2018	2017	(Decrease)	2016	(Decrease)
Noninterest income:					
Service charges on deposit accounts	$24,906	$20,034	24.32 %	$14,501	38.16 %
Investment services	21,175	14,315	47.92 %	10,757	33.08 %
Insurance sales commissions	9,331	7,405	26.01 %	5,310	39.45 %
Gains on mortgage loans sold, net	14,564	18,625	(21.80 %)	15,754	18.22 %
Investment gains (losses) on sales and impairments, net	(2,254)	(8,265)	72.73 %	395	NM
Trust fees	13,143	8,664	51.70 %	6,328	36.92 %
Income from equity method investment	51,222	37,958	34.94 %	31,403	20.87 %
Other noninterest income:					
Interchange and other consumer fees	39,928	29,887	33.60 %	24,221	23.39 %
Bank-owned life insurance	12,535	7,945	57.77 %	3,547	123.99 %
Loan swap fees	4,043	1,795	125.24 %	3,865	(53.56 %)

SBA loan sales	4,604	2,879	59.92 %	1,275	125.80 %
Gain on other equity investments	2,778	365	661.10 %	533	(31.52 %)
Other noninterest income	4,895	3,297	48.47 %	3,114	5.88 %
Total other noninterest income	68,783	46,168	48.98 %	36,555	26.30 %
Total noninterest income	$200,870	$144,904	38.62 %	$121,003	19.75 %

The increase in service charges on deposit accounts in 2018 compared to 2017 and 2016 is primarily related to increased analysis fees due to an increase in the volume and number of commercial checking accounts resulting from our acquisitions and organic growth within this product subsequent to the closing of our acquisitions.

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Income from our wealth management groups (investments, insurance and trust) is also included in noninterest income. For the year ended December 31, 2018, commissions and fees from investment services at our financial advisory unit, Pinnacle Asset Management, a division of Pinnacle Bank, were $21.2 million, compared to $14.3 million at December 31, 2017 and $10.8 million at December 31, 2016, reflecting increases in brokerage assets and, for much of 2018, 2017 and 2016, year-over-year increases in the value of the stock market. At December 31, 2018, Pinnacle Asset Management was receiving commissions and fees in connection with approximately $3.8 billion in brokerage assets compared to $3.3 billion and $2.2 billion at December 31, 2017 and 2016, respectively. Insurance commissions were approximately $9.3 million during 2018 compared to $7.4 million during 2017 and $5.3 million during 2016. Additionally, at December 31, 2018, our trust department was receiving fees on approximately $2.1 billion and $1.5 billion of managed and custodied assets, respectively, compared to approximately $1.8 billion and $1.1 billion at December 31, 2017 and $1.0 billion and $755 million at December 31, 2016. The growth in our wealth management businesses is attributable to our expanded distribution platform in our new markets as well as the addition of associates in our legacy Tennessee markets.

Gains on mortgage loans sold, net of related expenses, including commissions, consists of fees from the origination and sale of residential mortgage loans. These mortgage fees are for loans originated in our current markets that are subsequently sold to third-party investors. Substantially all of these loan sales transfer servicing rights to the buyer. Generally, mortgage origination fees increase in lower interest rate environments and more robust housing markets and decrease in rising interest rate environments and more challenging housing markets. Mortgage origination fees will fluctuate as the rate environment changes. Gains on mortgage loans sold, net, were $14.6 million, $18.6 million and $15.8 million, respectively, for the years ended December 31, 2018, 2017 and 2016. The year-over-year decline in 2018 in net gains on the sale of mortgage loans was attributable to the impact of the generally rising interest rate environment on mortgage production. The year-over-year growth in net gains on the sale of mortgage loans in 2017 was due to increased volumes due in large part to our acquisition with BNC. We hedge a portion of our mortgage pipeline as part of a mandatory delivery program. The hedge is not designated as a hedge for GAAP purposes and, as such, changes in its fair value are recorded directly through the income statement.There is a positive correlation between the dollar amount of the mortgage pipeline and the value of this hedge. Therefore, the change in the outstanding mortgage pipeline at any reporting period will directly impact the amount of gain recorded for mortgage loans held for sale in any reporting period. At December 31, 2018, the mortgage pipeline included $77.0 million in loans expected to close in 2019 compared to $131.5 million in loans at December 31, 2017 expected to close in 2018, respectively.

For the year ended December 31, 2018, investment gains (losses) on sales and impairments, net, represent a $2.3 million pre-tax loss we recognized upon the sale of $169.9 million of investment securities as we sought to restructure a portion of our securities portfolio to offer some protection against a flattening yield curve in 2018 and 2019. For the year ended December 31, 2017, investment gains (losses) on sales and impairments, net, represent an $8.3 million pre-tax loss we recognized in order to reposition $319.1 million of investment securities as we sought to provide our balance sheet more protection from a potentially flatter yield curve in the future. This loss also allowed us to capture an increased tax deduction in 2017 due to the reduction in corporate tax rates beginning in 2018 as a result of the passage of the Tax Cuts and Jobs Act.

Income from equity-method investment is comprised solely of income from our 49% equity-method investment in BHG. We acquired a 30% investment during the first quarter of 2015 and subsequently increased our investment by 19% in the first quarter of 2016. Income from this equity-method investment was $51.2 million for the year ended December 31, 2018 compared to $38.0 million and $31.4 million for the years ended December 31, 2017 and 2016, respectively. Income from equity-method investment is recorded net of associated expenses, including amortization expense associated with customer lists and other intangible assets of $2.8 million, $3.3 million and $3.4 million for the years ended December 31, 2018, 2017 and 2016, respectively. At December 31, 2018, there were $10.7 million of these intangible assets that are expected to be amortized in lesser amounts over the next 17 years. Also included in income from equity-method investment, is accretion income associated with the fair value of certain of BHG's liabilities of $2.9 million, $3.1 million and $2.5 million for the years ended December 31, 2018, 2017 and 2016, respectively. At December 31, 2018, there were $7.4 million of these liabilities that are expected to be accreted into income in lesser amounts over the next 8 years.

During the years ended December 31, 2018, 2017 and 2016, respectively, Pinnacle Financial and Pinnacle Bank received $33.7 million, $21.7 million and $29.0 million in dividends in the aggregate from BHG, which reduced the carrying amount of our investment in BHG while earnings from BHG increase the carrying amount of our investment in BHG. Our proportionate share of earnings from BHG are included in our consolidated tax return. Profits from intercompany transactions are eliminated. Earnings from BHG may fluctuate from period-to-period.

As our ownership interest in BHG is 49% and our representatives do not occupy a majority of the seats on BHG's board of managers, we do not consolidate BHG's results of operations or financial position into our financial statements but record the net result of BHG's activities at our percentage ownership in income from equity method investment in noninterest income. For the year ended December 31, 2018, BHG reported $220.3 million in gross revenues, net of substitution losses of $43.7 million, compared to $160.2 million and $136.7 million, respectively, for the years ended December 31, 2017 and 2016, net of substitution losses of $42.5 million and $23.4 million, respectively. The following discussion considers BHG's results of operations for 2018, 2017 and 2016 prior to consideration of our ownership interest.

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- Approximately $175.8 million, or 79.8%, of these revenues for the year ended December 31, 2018 related to gains on the sale of commercial loans BHG had previously issued primarily to doctor, dentist and other medical practices compared to $127.2 million, or 79.4%, for the year ended December 31, 2017 and $95.6 million, or 69.9%, for the year ended December 31, 2016. BHG refers to this activity as its core product. BHG typically funds these loans from cash reserves on its balance sheet. Subsequently, these core product loans are sold with no recourse to BHG to a network of community banks and other financial institutions at a premium to the par value of the loan. The purchaser may access a BHG cash reserve account of up to 3% of the loan balance to support loan payments. BHG retains no servicing or other responsibilities related to the core product loan once sold. As a result, this gain on sale premium represents BHG's compensation for absorbing the costs to originate the loan as well as marketing expenses associated with maintaining its business model.

- At December 31, 2018 and 2017, there were $1.9 billion and $1.5 billion, respectively, in core product loans previously sold by BHG that were actively serviced by BHG's network of bank purchasers. BHG, at its sole option, may also provide purchasers of these core product loans the ability to substitute the acquired loan with another more recently-issued BHG loan should the previously-acquired loan become at least 90-days past due as to its monthly payments. This substitution is subject to the purchaser having adhered to the standards of its purchase agreement with BHG. Additionally, all substitutions are subject to the approval by BHG's board of managers. As a result, the reacquired loans are deemed purchase credit impaired and recorded on BHG's balance sheet at the net present value of the loan's anticipated cash flows. BHG will then initiate collection efforts and attempt to restore the reacquired loan to performing status. As a result, BHG maintained a liability as of December 31, 2018 and 2017 of $88.9 million and $69.8 million, respectively, that represents an estimate of the future inherent losses for the outstanding core portfolio that may be subject to future substitution. This liability represents 4.7% of core product loans previously sold by BHG as of both December 31, 2018 and 2017.

- BHG will maintain loans on its balance sheet for a period of time prior to sale or transfer to a purchaser. BHG also has an investment portfolio on which it earns interest and dividend income. Net interest income and fees associated with these activities amounted to $32.5 million, $19.6 million and $20.3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

- Additionally, BHG will also refer loans to other financial institutions and, based on an agreement with the institution, earn a fee for doing so. Typically, these are loans that BHG believes would either be classified as consumer-type loans rather than commercial loans, fail to meet the credit underwriting standards of BHG but another institution will accept the loans or are to borrowers in certain geographic locations where BHG has elected not to do business. For the years ended December 31, 2018, 2017 and 2016, BHG recognized fee income of $1.5 million, $6.5 million and $10.0 million, respectively, from these activities.

Included in other noninterest income are interchange and other consumer fees, gains from bank-owned life insurance, swap fees earned for the facilitation of derivative transactions for our clients, SBA loan sales, gains or losses on other equity investments and other noninterest income items. Interchange revenues increased in 2018 as a result of increased debit and credit card transactions as compared to the comparable periods in 2017 and 2016 resulting from both customers added through acquisition and organic growth, but were negatively impacted by the Durbin amendment which was applicable to us beginning on July 1, 2017. Other noninterest income included changes in the cash surrender value of bank-owned life insurance which was $12.5 million for the year ended December 31, 2018 compared to $7.9 million and $3.5 million for the years ended December 31, 2017 and 2016, respectively. The increase in earnings on these bank-owned life insurance policies resulted from the purchase of $100.0 million in policies with similar terms to our existing policies during the year ended December 31, 2018 and the additional $202.3 million in bank-owned life insurance with terms similar to our existing policies which were added upon acquisition of BNC in June of 2017. The assets that support these policies are administered by the life insurance carriers and the income we receive (i.e., increases or decreases in the cash surrender value of the policies) on these policies is dependent upon the returns the insurance carriers are able to earn on the underlying investments that support the policies. Earnings on these policies generally are not taxable. Loan swap fees and SBA loan sales are all included in other noninterest income and fluctuate based on the current market environment. Additionally, included in other noninterest income are changes in the value of other primarily equity investments. The carrying values of these 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.

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Noninterest Expense. The following is our noninterest expense for the years ended December 31, 2018, 2017, and 2016 (in thousands):

	Years ended December 31, 2018	Years ended December 31, 2017	2018-2017 Percent Increase (Decrease)	Year ended December 31, 2016	2017-2016 Percent Increase (Decrease)
Noninterest expense:					
Salaries and employee benefits:					
Salaries	$161,229	$130,929	23.14 %	$83,164	57.43 %
Commissions	12,644	7,573	66.96 %	5,932	27.66 %
Cash and equity incentives	53,990	40,693	32.68 %	27,182	49.71 %
Employee benefits and other	43,810	30,467	43.79 %	24,541	24.15 %
Total salaries and employee benefits	271,673	209,662	29.58 %	140,819	48.89 %
Equipment and occupancy	74,276	54,092	37.31 %	35,072	54.23 %
Other real estate expense	723	1,079	(32.99 %)	396	172.47 %
Marketing and business development	11,712	8,321	40.75 %	6,536	27.31 %
Postage and supplies	7,815	5,736	36.24 %	3,929	45.99 %
Amortization of intangibles	10,549	8,816	19.66 %	4,281	105.93 %
Merger-related expenses	8,259	31,843	(74.06 %)	11,747	171.07 %
Other noninterest expense:					
Deposit related expenses	22,768	13,098	73.83 %	8,315	57.52 %
Lending related expenses	19,448	13,422	44.90 %	11,938	12.43 %
Wealth management related expenses	1,837	1,271	44.53 %	1,316	(3.42 %)
Audit, exam and insurance expense	7,791	5,785	34.68 %	4,178	38.46 %
Administrative and other expenses	16,036	13,435	19.36 %	7,758	73.18 %
Total other noninterest expense	67,880	47,011	44.39 %	33,505	40.31 %
Total noninterest expense	$452,887	$366,560	23.55 %	$236,285	55.13 %

The increase in total salaries and employee benefits expense in 2018 over 2017 and 2016 is primarily the result of an increase in the number of employees in 2018 over 2017 and 2016 and annual merit increases to base salaries. At December 31, 2018, our associate base had expanded to 2,297.0 full-time equivalent associates as compared to 2,132.0 and 1,179.5 at December 31, 2017 and 2016, respectively, primarily resulting from our acquisition of BNC and our efforts to continue to hire experienced bankers and other associates throughout our footprint. We expect salary and employee benefit expenses will continue to rise as we continue to hire more experienced bankers and other associates throughout our expanded footprint. We also expect salaries and benefits expense will increase in 2019 when compared to 2018 due to our increased associate base and annual merit increases given in the first quarter of each fiscal year and as we continue to enhance the infrastructure around our operations to account for our increased size and geographic reach.

Commissions expense represents compensation paid to our wealth management lines of business including investment services, trust, insurance and capital markets. Commissions expense for the year ended December 31, 2018 was 67.0% greater than in 2017 which was 27.7% greater than in 2016. The increase in 2018 as compared to 2017 and 2016 is primarily related to growth in our investment portfolio commissions. Commissions expense incurred related to the production of residential mortgages is recorded net of the related mortgage revenues.

We believe that cash and equity incentives are a valuable tool in motivating an employee base that is focused on providing our clients effective financial advice and increasing shareholder value. As a result, and unlike many other financial institutions, all of our non-commissioned associates participate in our annual cash incentive plan with a minimum targeted bonus equal to 10% of each associate's annual salary, and all of our associates participate in our equity compensation plans. Under the annual cash incentive plan, the targeted level of incentive payments requires achievement of a certain soundness threshold and a targeted level of revenues and diluted earnings per share (subject to certain adjustments). To the extent that the soundness threshold is met and revenues and earnings are above or below the targeted amount, the aggregate incentive payments are increased or decreased. Historically, we have paid between 0% and 125% of our targeted incentives. In 2018, our cash incentives represented 100% of targeted incentive compensation compared to 105% in 2017 and 90% in 2016. Cash incentives paid in 2018 totaled $36.4 million, compared to $24.1 million in 2017 and $16.2 million in 2016. The increase in 2018 when compared to 2017 was primarily the result of certain new associates that we had hired being able to participate in the annual cash incentive plan, particularly the BNC associates that did not participate in the company-wide plan in 2017. Similarly, the increase in 2017 when compared to 2016 was the result of certain new associates that we had hired being able to participate in the plan,

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particularly the Avenue associates that had not participated in 2016, and the payout in 2017 being at 105% of target compared to 90% of target in 2016.

Also, included in cash and equity incentives for the years ended December 31, 2018, 2017 and 2016, were approximately $12.0 million, $10.3 million and $7.7 million, respectively, of compensation expenses related to equity-based restricted share awards and approximately $5.7 million, $6.3 million and $3.2 million, respectively, of compensation expenses related to equity-based restricted share units with performance-based vesting criteria. We have not issued stock options since 2008. Under our equity incentive plans, we provide a broad-based equity incentive program for all associates. We believe that equity incentives provide a vehicle for all associates to become meaningful shareholders of Pinnacle Financial over an extended period of time and create a shareholder-centric culture throughout our organization. Our compensation expense associated with equity awards for 2018 increased when compared to 2017 and 2016 as a result of the additional associates we hired in those periods, including associates obtained in connection with an acquisition as well as increases in the amount of performance units awarded to our senior associates. We expect our compensation expense associated with equity awards to increase in 2019 when compared to 2018 as a result of our intention to hire additional experienced financial advisors in 2019 as well as increases in the amount of performance units awarded to our senior associates.

Employee benefits and other expenses include costs associated with our 401k plan, health insurance, payroll taxes and contract labor. These expenses increased by $13.3 million in 2018 compared to 2017 which increased by $5.9 million when compared to 2016. The increase in 2018 as compared to 2017 and 2017 as compared to 2016 was primarily the result of the increase in full-time equivalent associates in each respective period.

Equipment and occupancy expense for the year ended December 31, 2018 was 37.3% greater than in 2017 which was 54.2% greater than in 2016. The increase in 2018 as compared to 2017 and 2016 is due to our BNC merger, including the completion and opening of an office in North Carolina in 2018, and two new locations opened in our Tennessee markets in the latter part of 2017. We believe the number of our locations will increase over an extended period of time. In future periods, these expansions may lead to higher equipment and occupancy expenses as well as related increases in salaries and benefits expense.

Other real estate expense for the year ended December 31, 2018 was $723,000 compared to $1.1 million in 2017 and $396,000 in 2016. The decrease in 2018 compared to 2017 is related to the $12.7 million decrease in other real estate owned during the year ended December 31, 2018. The increase in 2017 is primarily related to the acquisition of $20.7 million in other real estate due to our merger with BNC.

Marketing and business development expense for the year ended December 31, 2018 was 40.8% greater than in 2017 which was 27.3% greater than in 2016. The primary source of the increases in 2018 as compared to 2017 and 2017 as compared to 2016 is related to our merger with BNC and the associated marketing and business development expenses for our expanded footprint. Additionally, our relationship with a Memphis professional sports franchise, which began in the latter half of 2016, was in place for the full year in 2017, representing a larger expense in 2017 when compared to 2016.

Noninterest expense related to the amortization of intangibles was $10.5 million for the year ended December 31, 2018 compared to $8.8 million and $4.3 million for the years ended December 31, 2017 and 2016, respectively. The increase in amortization expense is attributable to an increase in amortizing intangibles resulting from our acquisitions in 2017 and 2016, respectively. The following table outlines our amortizing intangible assets, their initial valuations and their intangible lives as of December 31, 2018:

Year acquired	Initial Valuation	Amortizable Life (in years)	Remaining Value

		(in millions)		(in millions)
Core Deposit Intangible:				
CapitalMark	2015	6.2	7	1.6
Magna Bank	2015	3.2	6	0.6
Avenue	2016	8.8	9	4.6
BNC	2017	48.1	10	36.8
Book of Business Intangible:				
Miller Loughry Beach Insurance	2008	1.3	20	0.3
CapitalMark	2015	0.3	16	0.2
BNC Insurance	2017	0.4	20	0.4
BNC Trust	2017	1.9	10	1.6

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These assets are being amortized on an accelerated basis which reflects the anticipated life of the underlying assets. Amortization expense related to these assets is estimated to decrease from $9.1 million per year to $4.7 million per year over the next five years with lesser amounts for the remaining amortization period.

During the years ended December 31, 2018, 2017 and 2016, respectively, merger-related expenses of $8.3 million, $31.8 million and $11.7 million were incurred associated with our acquisitions which occurred in, or prior to, those respective periods. Merger-related expenses in 2018 included costs to finalize the cultural and technical integrations related to our acquisition of BNC and associate retention packages. Merger-related expenses in 2017 primarily included the cost of the technical and cultural integration, lease termination fees, costs associated with the BNC branch rationalization plan we executed in 2017, the cost of certain assumed equity awards that vested upon the change in control, and retention bonuses paid to former BNC associates for their services during the conversion. Merger-related expenses during 2016 include legal costs incurred associated with the Avenue merger to defend ourselves and Avenue's directors in a shareholder suit as well as investigation and other legal costs associated with a former director's alleged improper trading in Avenue common stock. Merger-related expenses for the years ended December 31, 2018, 2017 and 2016, also include the costs of technical conversions which were completed during, or prior to, those periods. Certain associate-related expenses such as retention bonuses are also included in these expenses.

Total other noninterest expenses increased by $20.9 million to $67.9 million during 2018 when compared to 2017. Included in other noninterest expenses are deposit and lending related expenses, investment and trust sales expenses, audit, exam and insurance expense and administrative expenses. Deposit and lending expenses increased by $9.7 million and $6.0 million, respectively, in 2018 primarily as a result of our increased loan and deposit volumes in the period and, in the case of deposit-related expenses, as a result of an increase in FDIC deposit insurance premiums of $6.0 million in 2018. Audit, exam and insurance expense is comprised of the fees associated with ongoing audit and regulatory exams of our operations as well as the cost of our corporate insurance. Increases in audit, exam and insurance expense in 2018 as compared to 2017 and 2016 is primarily related to increased regulation of our operations as a result of our expanded footprint and increased asset size following the acquisition of BNC. Administrative and other expenses increased by $2.6 million to $16.0 million during 2018 when compared to 2017. Additionally, franchise tax expense increased $1.4 million in connection with our expanded tax base.

Total other noninterest expenses increased by $13.5 million to $47.0 million during 2017 when compared to 2016. Included in other noninterest expenses are deposit and lending related expenses, investment and trust sales expenses, audit, exam and insurance expense and administrative expenses. Deposit and lending expenses increased by $4.8 million and $1.5 million, respectively, in 2017 primarily as a result of our acquisition of BNC and in the case of deposit-related expenses, as a result of an increase in FDIC deposit insurance premiums of $3.2 million in 2017. Administrative and other expenses increased by $5.7 million to $13.4 million during 2017 when compared to 2016. Included in those expenses were increased legal fees, director fees and insurance costs as a result of our acquisition of BNC. Franchise tax expense increased $952,000 in connection with our expanded tax base.

Our efficiency ratio (ratio of noninterest expense to the sum of net interest income and noninterest income) was 48.3% in fiscal year 2018 compared to 53.3% in fiscal year 2017 and 53.0% in fiscal year 2016. The efficiency ratio measures the amount of expense that is incurred to generate a dollar of revenue. Improvements in our efficiency ratio in each of 2018, 2017 and 2016 when compared to the prior years were largely driven by our increase in size and growth in net interest income and noninterest income as a result of our acquisitions we completed during those periods.

Income Taxes. During the year ended December 31, 2018, we recorded income tax expense of $90.5 million compared to $124.0 million and $64.2 million in 2017 and 2016, respectively. As a result of the Tax Act, in 2017 we recorded a non-cash charge of $31.5 million related to the revaluation of our net deferred tax assets due to the statutory federal income tax rate for corporate entities decreasing from 35 percent to 21 percent for 2018 and future periods. Our effective income tax rate was 20.1%, 41.6% and 33.5%, respectively, for the years ended December 31, 2018, 2017 and 2016. The reduction in 2018 was primarily due to the reduction in the federal statutory corporate tax rate following enactment of the Tax Act. Our effective tax rate differs from the combined federal and state income tax statutory rate in effect of 26.14% and 39.23%, during the respective periods, primarily due to our investments in bank-qualified municipal securities, tax benefits from our real estate investment trust subsidiary, participation in Tennessee's CITC program, tax benefits associated with bank-owned life insurance and tax savings from our captive insurance subsidiary, offset in part by the limitation on deductibility of meals and entertainment expense, certain merger-related expenses and, in 2018, non-deductible FDIC insurance premiums and non-deductible executive compensation. Impacting tax expense during the years ended December 31, 2018 and 2017, was also our adoption on January 1, 2017 of FASB Accounting Standards Update (ASU) 2016-09, Stock Compensation Improvements to Employee Share-Based Payment Activity, which represented a change in accounting for the tax effects related to vesting of common shares and the exercise of stock options previously granted to our employees through our various equity compensation plans. This change resulted in a reduction in tax expense of $3.0 million and $5.4 million, respectively, for the years ended December 31, 2018 and 2017 as the income tax effects related to settlements of share-based payment awards is now required to be reported as increases (or decreases) to income tax expense. Previously, income tax benefits at settlement of an award were reported as an increase (or decrease) to additional paid-in capital.

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Financial Condition

Our consolidated balance sheet at December 31, 2018 reflects an increase of $2.1 billion in outstanding loans to $17.7 billion and an increase of $2.4 billion in total deposits to $18.8 billion from December 31, 2017. Total assets were $25.0 billion at December 31, 2018 as compared to $22.2 billion at December 31, 2017. We acquired loans of $5.6 billion and deposits totaling $6.2 billion upon our acquisition of BNC in 2017. We acquired loans of $952.5 million and deposits totaling $966.7 million upon our acquisition of Avenue in 2016. Collectively, we acquired $1.3 billion in loans and $1.4 billion in deposits upon our acquisitions of CapitalMark and Magna in 2015.

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

	2018			2017			2016			2015			2014		
	Amount	Percent		Amount	Percent		Amount	Percent		Amount	Percent		Amount	Percent	
Commercial real estate - Mortgage	$7,164,954	40.4	%	$6,669,610	42.7	%	$3,193,496	37.8	%	$2,275,483	34.8	%	$1,544,091	33.6	%
Consumer real estate - Mortgage	2,844,447	16.1	%	2,561,214	16.4	%	1,185,917	14.0	%	1,046,517	16.0	%	721,158	15.7	%
Construction and land development	2,072,455	11.7	%	1,908,288	12.2	%	912,673	10.8	%	747,697	11.4	%	322,466	7.0	%
Commercial and industrial	5,271,421	29.8	%	4,141,341	26.5	%	2,891,710	34.2	%	2,228,542	34.1	%	1,784,729	38.9	%
Consumer and other	354,272	2.0	%	352,663	2.2	%	266,129	3.2	%	244,996	3.7	%	217,583	4.8	%
Total loans	$17,707,549	100.0	%	$15,633,116	100.0	%	$8,449,925	100.0	%	$6,543,235	100.0	%	$4,590,027	100.0	%

The composition of our loan portfolio has changed due to our acquisition of BNC, which focused more on commercial real estate lending, including construction, than we did in our legacy Tennessee markets. As we intend to focus on growth of the commercial and industrial segment in our expanded footprint, we continue to believe our commercial and industrial portfolio will again become a more substantial portion of our total loan portfolio at December 31, 2018. This focus was evident in 2018, as the commercial and industrial segment represented 3.3% more of our total loan portfolio than it did at December 31, 2017. We will continue to focus on the growth of this segment in 2019 and future periods, as well as growth in owner-occupied commercial real estate loans.

The commercial real estate – mortgage category includes owner-occupied commercial real estate loans. At December 31, 2018, approximately 37.0% of the outstanding principal balance of our commercial real estate - mortgage loans was secured by owner-occupied commercial real estate properties. Owner-occupied commercial real estate is similar in many ways to our commercial and industrial lending in that these loans are generally made to businesses on the basis of the cash flows of the business rather than on the valuation of the real estate. While the construction and land development loan segment continued to grow in 2018, this segment represents a smaller portion of our portfolio as compared to 2017 as we continued our efforts to reduce the level of these loans as a percentage of our total portfolio to pre-BNC merger levels. Nonetheless, construction and land development lending continues to be a meaningful portion of our portfolio and reflects the development in the local economies in which we operate and is diversified between commercial, residential and land.

The following table classifies our fixed and variable rate loans at December 31, 2018 according to contractual maturities of (1) one year or less, (2) after one year through five years, and (3) after five years. The table also classifies our variable rate loans pursuant to the contractual repricing dates of the underlying loans (dollars in thousands):

	Amounts at December 31, 2018						
	Fixed Rates	Variable Rates	Totals	At December 31, 2018		At December 31, 2017	
Based on contractual maturity:							
Due within one year	$952,826	$2,394,299	$3,347,125	18.9	%	18.2	%
Due in one year to five years	4,734,961	4,057,543	8,792,504	49.7	%	48.2	%
Due after five years	2,685,100	2,882,820	5,567,920	31.4	%	33.6	%
Totals	$8,372,887	$9,334,662	$17,707,549	100.0	%	100.0	%

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	Amounts at December 31, 2018				
	Fixed Rates	Variable Rates	Totals	At December 31, 2018	At December 31, 2017
Based on contractual repricing dates:					
Daily floating rate	$—	$2,755,333	2,755,333	15.6 %	16.4 %
Due within one year	952,826	5,952,578	6,905,404	39.0 %	37.8 %
Due in one year to five years	4,734,961	363,959	5,098,920	28.8 %	28.4 %
Due after five years	2,685,100	262,792	2,947,892	16.6 %	17.4 %
Totals	$8,372,887	$9,334,662	$17,707,549	100.0 %	100.0 %

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

Loan Origination Risk Management. We maintain lending policies and procedures designed to maximize lending opportunities within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loans in our portfolio, loan quality, concentrations of credit, loan delinquencies and non-performing loans. Diversification in the loan portfolio is measured and monitored as a means of managing risk associated with fluctuations in economic conditions.

Underwriting standards are designed to promote relationship banking rather than transactional banking. Management examines current and projected cash flows to determine the expected ability of a borrower to repay its obligations as agreed. Commercial and industrial loans are primarily underwritten based on the identified cash flows of the borrower and generally are collateralized by business assets and may have a personal guaranty of business principals. Collateral pledged may include the assets being financed or other assets such as accounts receivable, inventory or equipment. Some short-term loans may be advanced on an unsecured basis.

Commercial real estate mortgage loans are subject to underwriting standards and processes similar to commercial and industrial loans. These loans are viewed primarily as cash flow loans and are underwritten based on the ability of the property (in the case of income producing property), or the borrower's business (if owner occupied) to generate sufficient cash flow to amortize the debt. Secondary emphasis is placed upon collateral value and the financial strength of guarantors, if any. Commercial real estate loans may be adversely affected by conditions in the real estate markets or in the general economy. As detailed in the discussion of real estate loans below, the properties securing our commercial real estate portfolio generally are diverse in terms of type and industry and we measure and monitor concentrations regularly. We believe this diversity helps reduce our exposure to adverse economic events that affect any single industry or type of real estate product. Management monitors and evaluates commercial real estate loans based on cash flow, collateral, geography and risk grade criteria. We also utilize third-party experts to provide insight and guidance about economic conditions and trends affecting market areas we serve.

Construction loans are underwritten utilizing independent appraisals, sensitivity analysis of absorption and lease rates, financial analysis of the developers and property owners, and expectations of the permanent mortgage market, among other items. Construction loans are generally based upon estimates of costs and appraised value associated with the completed project, which may be inaccurate. Construction loans involve the disbursement of funds during construction with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be sales of developed property, refinancing in the permanent mortgage market, or an interim loan commitment from us until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans because their ultimate repayment depends on the satisfactory completion of construction and is sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

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

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

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Lending Concentrations. We periodically analyze our loan portfolio to determine if a concentration of credit risk exists to any one or more industries. We use broadly accepted industry classification systems in order to classify borrowers into various industry classifications. We have a credit exposure (loans outstanding plus unfunded commitments) exceeding 25% of Pinnacle Bank's total risk-based capital to borrowers in the following industries at December 31, 2018 and 2017 (in thousands):

	At December 31, 2018			
	Outstanding Principal Balances	Unfunded Commitments	Total exposure	Total Exposure at December 31, 2017
Lessors of nonresidential buildings	$3,149,948	$ 782,111	$3,932,059	$3,483,597
Lessors of residential buildings	1,200,653	284,044	1,484,697	1,151,676
New housing for-sale builders	511,484	589,505	1,100,989	780,137
Hotels and motels	779,390	140,611	920,001	836,320

Banking regulations have established guidelines for the construction ratio of less than 100% of total risk-based capital and for the non-owner occupied ratio of less than 300%. Should a bank's ratios be in excess of these guidelines, banking regulations generally require an increased level of monitoring in these lending areas by bank management. Both ratios are calculated by dividing certain types of loan balances for each of the two categories by Pinnacle Bank's total risk-based capital. At December 31, 2018 and 2017, Pinnacle Bank's construction and land development loans as a percentage of total risk-based capital was 85.2% and 89.4%, respectively. Non-owner occupied commercial real estate and multifamily loans (including construction and loan development loans) was 277.7% and 297.1% for December 31, 2018 and 2017, respectively. While Pinnacle Bank was in excess of the 300% guideline for the first six months of 2018, Pinnacle Bank was within the 100% and 300% guidelines for the remainder of 2018 and has established what it believes to be appropriate controls to monitor its lending in these areas as it aims to keep the level of these loans to below the 100% and 300% thresholds.

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

Accruing loans past due 30 to 89 days:	December 31, 2018	December 31, 2017
Commercial real estate – mortgage	$11,756	$23,331
Consumer real estate – mortgage	18,059	14,835
Construction and land development	3,759	4,136
Commercial and industrial	21,451	7,406
Consumer and other	3,276	6,311
Total accruing loans past due 30 to 89 days	$58,301	$56,019
Accruing loans past due 90 days or more:		
Commercial real estate – mortgage	$—	$104
Consumer real estate – mortgage	—	1,265
Construction and land development	—	146
Commercial and industrial	1,082	1,348
Consumer and other	476	1,276
Total accruing loans past due 90 days or more	$1,558	$4,139

Ratios:

Accruing loans past due 30 to 89 days as a percentage of total loans	0.33	%	0.36	%
Accruing loans past due 90 days or more as a percentage of total loans	0.01	%	0.02	%
Total accruing loans in past due status as a percentage of total loans	0.34	%	0.38	%

Potential Problem Loans. Potential problem loans amounted to approximately $176.3 million, or 1.0% of total loans outstanding at December 31, 2018, compared to $164.0 million, or 1.1% of total loans outstanding at December 31, 2017. Potential problem loans, which are not included in nonperforming loans, represent those loans with a well-defined weakness and where information about possible credit problems of borrowers has caused management to have doubts about the borrower's ability to comply with present repayment terms. This definition is believed to be substantially consistent with the standards established by Pinnacle Bank's primary regulators, for loans classified as substandard or worse, but not considered nonperforming loans. Approximately $17.1 million of potential problem loans were past due at least 30 but less than 90 days as of December 31, 2018.

Non-Performing Assets and Troubled Debt Restructurings. At December 31, 2018, we had $103.2 million in nonperforming assets compared to $85.5 million at December 31, 2017. Included in nonperforming assets were $87.8 million in nonperforming loans and $15.4 million in other real estate owned and other nonperforming assets at December 31, 2018 and $57.5 million in nonperforming loans and $28.0 million in other real estate owned and other nonperforming assets at December 31, 2017. At December 31, 2018 and 2017, there were $5.9 million and $6.6 million, respectively, of troubled debt restructurings that were performing as of the restructured date and remain on accrual status but are considered impaired loans pursuant to U.S. GAAP.

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

We discontinue the accrual of interest income when (1) there is a significant deterioration in the financial condition of the borrower and full repayment of principal and interest is not expected or (2) the principal or interest is more than 90 days past due, unless the loan is both well-secured and in the process of collection. During 2018, 2017 and 2016, respectively, we recognized $469,000, $95,000 and $159,000 of interest income from nonperforming loans, reflecting cash payments received from the borrower and our belief, at the time of payment, that the underlying collateral supported the carrying amount of the loans.

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

At December 31, 2018, we owned $15.2 million in other real estate which we had acquired, usually through foreclosure, or by deed in lieu of foreclosure, from borrowers compared to $27.8 million at December 31, 2017; the majority of this real estate is located within our principal markets. Of the $27.8 million balance at December 31, 2017, $21.5 million was acquired in conjunction with our merger with BNC.

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The following table is a summary of our nonperforming assets and troubled debt restructurings at December 31, 2018 and 2017 (in thousands):

	December 31, 2018	December 31, 2017
Nonperforming assets:		
Nonperforming loans (1):		
Commercial real estate – mortgage	$32,335	$16,064
Consumer real estate – mortgage	28,069	18,117
Construction and land development	3,387	5,968
Commercial and industrial	23,060	17,306
Consumer and other	983	—
Total nonperforming loans (1)	87,834	57,455
Other real estate owned	15,165	27,831
Other repossessed assets	228	197
Total nonperforming assets	103,227	85,483
Accruing troubled debt restructurings:		
Commercial real estate – mortgage	179	194
Consumer real estate – mortgage	4,547	2,852
Construction and land development	347	—
Commercial and industrial	826	3,565
Consumer and other	—	—
Total accruing troubled debt restructurings	5,899	6,611
Total nonperforming assets and accruing troubled debt restructurings	$109,126	$92,094
Ratios:		
Nonperforming loans to total loans	0.50 %	0.37 %
Nonperforming assets to total loans plus other real estate owned	0.58 %	0.55 %
Nonperforming assets plus troubled debt restructurings to total loans plus other real estate owned	0.62 %	0.59 %
Nonperforming assets, potential problem loans and troubled debt restructurings to Pinnacle Bank Tier 1 capital and allowance for loan losses	12.40 %	12.80 %
Classified Asset Ratio (Pinnacle Bank) (2)	12.40 %	12.90 %
Allowance for loan loss coverage ratio	95.2 %	117.0 %

(1) Approximately $52.5 million and $45.8 million as of December 31, 2018 and 2017, respectively, of nonperforming loans included above were currently paying pursuant to their contractual terms at December 31, 2018 and December 31, 2017.

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

Allowance for Loan Losses (allowance). We maintain the allowance at a level that our management deems appropriate to adequately cover the probable losses inherent in the loan portfolio. As of December 31, 2018 and 2017, our allowance for loan losses was $83.6 million and $67.2 million, respectively, which our management deemed to be adequate at each of the respective dates. Our allowance for loan loss as a percentage of total loans has increased from 0.43% at December 31, 2017 to 0.47% at December 31, 2018. The increase in the allowance as a percentage of total loans is primarily attributable to provision expense associated with organic loan growth and new loan originations in our expanded footprint during 2018 in contrast to 2017 when much of our loan growth was the result of our acquisition of BNC. The absolute level of our allowance for loan losses is largely driven by continued favorable credit experience in our larger portfolios and we believe it is supported by the strong economies presently in place in the markets in which we operate.

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Also impacting the overall balance of our allowance for loan losses is fair value accounting on our acquired loan portfolios as no allowance for loan losses is assigned to acquired loans as of the date of acquisition; however, an allowance for loan losses is recorded for purchased loans that have experienced credit deterioration subsequent to acquisition or increases in balances outstanding. Our accounting policy is to compare the computed allowance for loan losses on a loan-by-loan basis for purchased loans to the remaining fair value adjustment. If the computed allowance at the loan level is greater than the remaining fair value adjustment, the excess is added to the allowance for loan losses by a charge to the provision for loan losses. The judgments and estimates associated with our allowance determination are described under "Critical Accounting Estimates" above. As of December 31, 2018, net loans included a net fair value discount of $95.7 million. For the years ended December 31, 2018 and 2017, respectively, the net fair value discount changed as follows:

	Accretable Yield(1)	Nonaccretable Yield(2)	Total
December 31, 2016	$(30,364)	$ (3,633)	$(33,997)
Acquisitions	(149,116)	(32,314)	(181,430)
Year-to-date accretion/settlement	47,478	4,410	51,888
December 31, 2017	$(132,002)	$ (31,537)	$(163,539)
Year-to-date accretion/settlement	53,720	14,143	67,863
December 31, 2018	$(78,282)	$ (17,394)	$(95,676)

(1) The accretable yield will be recorded as a component of interest income using the level-yield method based on the life of the underlying loans.
(2) The nonaccretable yield will be reduced as purchase credit impaired loans are settled.

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

	At December 31,									
	2018		2017		2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial real estate –Mortgage	$26,946	40.4 %	$21,188	42.7 %	$13,655	37.8 %	$15,513	34.8 %	$22,202	33.6 %
Consumer real estate – Mortgage	7,670	16.1 %	5,031	16.4 %	6,564	14.0 %	7,220	16.0 %	5,424	15.7 %
Construction and land development	11,128	11.7 %	8,962	12.2 %	3,624	10.8 %	2,903	11.4 %	5,724	7.0 %
Commercial and industrial	31,731	29.8 %	24,863	26.5 %	24,743	34.2 %	23,643	34.1 %	29,167	38.9 %
Consumer and other	5,423	2.0 %	5,874	2.2 %	9,520	3.2 %	15,616	3.7 %	1,570	4.8 %
Unallocated	677	NA	1,322	NA	874	NA	537	NA	3,272	NA
Total allowance for loan losses	$83,575	100.0%	$67,240	100.0%	$58,980	100.0%	$65,432	100.0%	67,359	100.0%

The allocation of the allowance for loan losses by category is determined based on historical loss experience for that category and qualitative factors applicable to each category of loans. The allocated loan loss attributable to impaired loans is included in the respective category above. The unallocated category is intended to allow for losses that are inherent in our portfolio that we have not yet identified or attributable to a specific risk factor and for modeling imprecision. Additional information on the allocation of the allowance between performing and impaired loans is provided in Note 6 to the "Notes to the Consolidated Financial Statements."

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The following is a summary of changes in the allowance for loan losses for each of the years in the five-year period ended December 31, 2018 and the ratio of the allowance for loan losses to total loans as of the end of each period (in thousands):

	2018	2017	2016	2015	2014
Balance at beginning of period	$67,240	$58,980	$65,432	$67,359	$67,970
Provision for loan losses	34,377	23,664	18,328	9,188	3,635
Charged-off loans:					
Commercial real estate - Mortgage	(3,030)	(633)	(276)	(384)	(875)
Consumer real estate - Mortgage	(1,593)	(1,461)	(788)	(365)	(1,621)
Construction and land development	(74)	(137)	(231)	(190)	(301)
Commercial and industrial	(13,175)	(4,297)	(5,801)	(2,207)	(3,095)
Consumer and other	(12,528)	(15,518)	(24,016)	(18,002)	(1,811)
Total charged-off loans	(30,400)	(22,046)	(31,112)	(21,148)	(7,703)
Recoveries of previously charged-off loans:					
Commercial real estate - Mortgage	2,096	671	208	85	538
Consumer real estate - Mortgage	2,653	1,516	546	874	671
Construction and land development	1,863	1,136	545	1,479	277
Commercial and industrial	3,035	1,317	2,138	1,730	1,484
Consumer and other loans	2,711	2,002	2,895	5,865	487
Total recoveries of previously charged-off loans	12,358	6,642	6,332	10,033	3,457
Net charge-offs	(18,042)	(15,404)	(24,780)	(11,115)	(4,246)
Balance at end of period	$83,575	$67,240	$58,980	$65,432	$67,359
Ratio of allowance for loan losses to total loans outstanding at end of period	0.47 %	0.43 %	0.70 %	1.00 %	1.47 %
Ratio of net charge-offs to average loans outstanding for the period	0.11 %	0.13 %	0.33 %	0.21 %	0.10 %

The decrease in the allowance for loan loss as a percentage of total loans over the last several years is primarily as a result of recording our acquired portfolios at fair value upon acquisition. Net charge-offs in the consumer portfolio remained elevated in 2018, primarily due to the non-prime automobile portfolio, which continues to become a less meaningful portion of our portfolio. Balances in the non-prime automobile portfolio decreased from $21.8 million at December 31, 2017 to $6.3 million as of December 31, 2018. The increase in charge offs in the commercial and industrial portfolio is largely due to loans that were reported as nonperforming assets as of December 31, 2017, and for which further deterioration resulted in charge-offs during the year ended December 31, 2018.

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

Based upon our evaluation of the loan portfolio, we believe the allowance for loan losses to be adequate to absorb our estimate of inherent losses existing in the loan portfolio at December 31, 2018. While our policies and procedures used to estimate the allowance for loan losses, as well as the resultant provision for loan losses charged to operations, are considered adequate by management, they are necessarily approximate and imprecise. There are factors beyond our control, such as conditions in the local and national economy, local real estate market or a particular industry or borrower which may negatively impact, materially, our asset quality and the adequacy of our allowance for loan losses and, thus, the resulting provision for loan losses.

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Investments. Our investment portfolio, consisting primarily of Federal agency bonds, state and municipal securities and mortgage-backed securities, amounted to $3.28 billion and $2.54 billion at December 31, 2018 and 2017, respectively. Our investment to asset ratio has increased from 11.4% at December 31, 2017 to 13.1% at December 31, 2018. Our investment portfolio serves many purposes including serving as a stable source of income, collateral for public funds and as a potential liquidity source. During 2018, Pinnacle sold $169.9 million of investment securities for a net pre-tax loss of $2.3 million. During 2017, $319.1 million of investment securities were sold at a net pre-tax loss of $8.3 million. These sales were implemented as part of our efforts to reposition our investment portfolio to provide our balance sheet more protection from a potentially flatter yield curve in the future. The timing of the sales in 2017 also allowed us to capture an increased tax deduction in 2017 due to the reduction in corporate tax rates beginning in 2018 as a result of the passage of the Tax Act. During the third quarter of 2018, Pinnacle Financial transferred, at fair value, $179.8 million of municipal securities from the available-for-sale portfolio to the held-to-maturity portfolio to manage the earning asset potential and associated risk assumed with the purchase of these types of securities. The related net unrealized after tax losses of $2.2 million remained in accumulated other comprehensive income (loss) and will be amortized over the remaining life of the securities, offsetting the related amortization of discount on the transferred securities. No gains or losses were recognized at the time of transfer.

A summary of certain aspects of our investment portfolio at December 31, 2018 and 2017 follows:

	December 31,	
	2018	2017
Weighted average life	7.23 years	6.29 years
Effective duration (*)	3.62 %	3.49 %
Weighted average coupon	3.67 %	2.99 %
Tax equivalent yield	3.22 %	2.68 %

(*) The metric is presented net of fair value hedges tied to certain investment portfolio holdings. The effective duration of the investment portfolio without the fair value hedges as of December 31, 2018 was 4.82%.

The following table shows the carrying value of investment securities according to contractual maturity classifications of (1) one year or less, (2) after one year through five years, (3) after five years through ten years, and (4) after ten years. Actual maturities may differ from contractual maturities of mortgage-backed and asset-backed securities because the mortgages or other assets underlying the securities may be called or prepaid with or without penalty. Therefore, these securities are not included in the maturity categories but are listed below these categories as of December 31, 2018 and 2017 (in thousands):

	U.S. Treasury securities		U.S. government agency securities		State and Municipal securities		Corporate securities		Totals	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
At December 31, 2018:										
Securities available-for-sale:										
Due in one year or less	$29,805	2.33%	$9,911	2.70%	2,835	1.91%	$4,923	2.39%	$47,474	2.39%
Due in one year to five years	495	2.08%	3,083	2.27%	24,936	4.96%	16,411	4.58%	44,925	4.60%
Due in five years to ten years	—	0.00%	13,549	2.16%	44,883	3.09%	39,993	4.65%	98,425	3.61%
Due after ten years	—	0.00%	43,616	2.78%	1,157,000	4.49%	5,719	4.49%	1,206,335	4.43%
	$30,300	2.32%	$70,159	2.63%	$1,229,654	4.44%	$67,046	4.46%	1,397,159	4.31%
Mortgage-backed securities									1,310,945	2.78%
Asset-backed securities									375,582	3.42%
									$3,083,686	3.55%

Securities held-to-maturity:										
Due in one year or less	$—	0.00%	$—	0.00%	$325	5.06%	$—	0.00%	$325	5.06%
Due in one year to five years	—	0.00%	—	0.00%	5,710	2.35%	—	0.00%	5,710	2.35%
Due in five years to ten years	—	0.00%	—	0.00%	7,980	2.88%	—	0.00%	7,980	2.88%
Due after ten years	—	0.00%	—	0.00%	180,267	4.35%	—	0.00%	180,267	4.35%
	$—	0.00%	$—	0.00%	$194,282	4.23%	$—	0.00%	194,282	4.23%
Mortgage-backed securities									—	0.00%
Asset-backed securities									—	0.00%
Total held-for-sale securities									$194,282	4.23%

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	U.S. Treasury securities		U.S. government agency securities		State and Municipal securities		Corporate securities		Totals	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
At December 31, 2017:										
Securities available-for-sale:										
Due in one year or less	$30,196	1.20%	$248	1.25%	$2,752	3.08%	$—	0.00%	$33,196	1.36%
Due in one year to five years	249	1.75%	2,082	2.23%	53,611	4.43%	9,833	3.19%	65,775	4.16%
Due in five years to ten years	—	0.00%	9,658	1.67%	118,784	4.11%	58,756	4.32%	187,198	4.05%
Due after ten years	—	0.00%	168,813	2.46%	609,465	4.25%	13,725	3.18%	792,003	3.84%
	$30,445	1.21%	$180,801	2.41%	$784,612	4.24%	$82,314	4.00%	1,078,172	3.82%
Mortgage-backed securities									1,263,819	2.45%
Asset-backed securities									173,292	2.63%
									$2,515,283	3.05%
Securities held-to-maturity:										
Due in one year or less	$—	0.00%	$—	0.00%	$1,329	4.63%	$—	0.00%	$1,329	4.63%
Due in one year to five years	—	0.00%	—	0.00%	6,210	2.46%	—	0.00%	6,210	2.46%
Due in five years to ten years	—	0.00%	—	0.00%	10,425	3.00%	—	0.00%	10,425	3.00%
Due after ten years	—	0.00%	—	0.00%	2,798	4.02%	—	0.00%	2,798	4.02%
	$—	0.00%	$—	0.00%	$20,762	3.08%	$—	0.00%	$20,762	3.08%
Mortgage-backed securities									—	0.00%
Asset-backed securities									—	0.00%
Total held-for-sale securities									$20,762	3.08%

We computed yields using coupon interest, adding discount accretion or subtracting premium amortization, as appropriate, on a ratable basis over the life of each security. We computed the weighted average yield for each maturity range using the acquisition price of each security in that range.

Deposits and Other Borrowings. We had approximately $18.8 billion of deposits at December 31, 2018 compared to $16.5 billion at December 31, 2017. Our deposits consist of noninterest and interest-bearing demand accounts, savings accounts, money market accounts and time deposits. Additionally, we entered into agreements with certain customers to sell certain of our securities under agreements to repurchase the security the following day. These agreements (which are typically associated with comprehensive treasury management programs for our commercial clients and provide the client with short-term returns for their excess funds) amounted to $104.7 million at December 31, 2018 and $135.3 million at December 31, 2017. Average balances for these repurchase agreements were $129.9 million in 2018 and $119.1 million in 2017. Additionally, at December 31, 2018, we had borrowed $1.4 billion in advances from the Federal Home Loan Bank of Cincinnati (FHLB Cincinnati) compared to $1.3 billion at December 31, 2017. At December 31, 2018, we had an estimated $2.6 billion in additional borrowing capacity with the FHLB Cincinnati; however, incremental borrowings are made via a formal request by us and the subsequent approval by the FHLB Cincinnati.

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

	December 31, 2018	Percent	December 31, 2017	Percent
Core funding:				
Noninterest-bearing deposit accounts	$4,309,067	20.63 %	$4,381,386	23.85 %
Interest-bearing demand accounts	3,097,110	14.83 %	2,756,506	15.00 %
Savings and money market accounts	6,805,186	32.59 %	5,847,650	31.83 %
Time deposit accounts less than $250,000	1,605,983	7.69 %	1,260,162	6.86 %
Reciprocating demand deposit accounts (1)	162,410	0.78 %	77,472	0.42 %
Reciprocating savings accounts (1)	418,230	2.00 %	408,806	2.23 %
Reciprocating CD accounts (1)	91,187	0.44 %	106,227	0.58 %
Total core funding	16,489,173	78.96 %	14,838,209	80.77 %
Non-core funding:				
Relationship based non-core funding:				
Other time deposits	687,427	3.29 %	444,951	2.42 %
Securities sold under agreements to repurchase	104,741	0.50 %	135,262	0.74 %
Total relationship based non-core funding	792,168	3.79 %	580,213	3.16 %
Wholesale funding:				
Brokered deposits	588,861	2.82 %	445,822	2.43 %
Brokered time deposits	1,083,646	5.19 %	722,721	3.93 %
Federal Home Loan Bank advances	1,443,589	6.91 %	1,319,909	7.18 %
Subordinated debt and other funding	485,130	2.33 %	465,505	2.53 %
Total wholesale funding	3,601,226	17.25 %	2,953,957	16.07 %
Total non-core funding	4,393,394	21.04 %	3,534,170	19.23 %
Totals	$20,882,567	100.00%	$18,372,379	100.00%

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

As noted in the table above, our core funding as a percentage of total funding decreased from 80.8% at December 31, 2017 to 79.0% at December 31, 2018 primarily as a result of increased levels of brokered time deposits and other time deposits. Core deposits at December 31, 2017 have been restated from prior presentation for the regulatory changes implemented in 2018 that allow for the treatment of reciprocal deposits as core funding. Growing our core deposit base is a key strategic objective of our firm. Our current growth plans contemplate that we may increase our non-core funding amounts from current levels, but we do not currently anticipate that such increases will exceed our internal policies.

When wholesale funding is necessary to complement the company's core deposit base, management determines which source is best suited to address both liquidity risk management and interest rate risk management objectives. We increased our exposure to brokered deposits and brokered time deposits in 2018 as a measure to diversify wholesale funding sources. Our Asset Liability Management Policy imposes limitations on overall wholesale funding reliance and on brokered deposit exposure specifically. Both our overall reliance on wholesale funding and exposure to brokered deposits and brokered time deposits were within those policy limitations as of December 31, 2018.

Our funding policies impose limits on the amount of non-core funding we can utilize based on the non-core funding dependency ratio which is calculated pursuant to regulatory guidelines. Periodically, we may exceed our policy limitations, at which time management will develop plans to bring our funding sources back into compliance with our core funding ratios. At December 31, 2018 and December 31, 2017, we were in compliance with our core funding policies. Though growing our core deposit base is a key strategic objective of our firm, our current growth plans contemplate that we may temporarily increase our non-core funding amounts from current levels, but we do not currently anticipate that such increases will exceed our internal policies.

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The amount of time deposits as of December 31, 2018 amounted to $3.5 billion. The following table, which includes core, non-core and reciprocal deposits, shows our time deposits in denominations of under $100,000 and those of denominations of $100,000 and greater by category based on time remaining until maturity of (1) three months or less, (2) over three but less than six months, (3) over six but less than twelve months and (4) over twelve months and the weighted average rate for each category (in thousands):

	Balances	Weighted Avg. Rate
Denominations less than $100,000		
Three months or less	$385,312	1.71 %
Over three but through six months	266,498	1.83 %
Over six but through twelve months	511,372	2.12 %
Over twelve months	509,482	2.44 %
	1,672,664	2.08 %
Denomination $100,000 and greater		
Three months or less	373,184	1.59 %
Over three but through six months	328,520	1.87 %
Over six but through twelve months	593,951	1.86 %
Over twelve months	499,924	2.46 %
	1,795,579	1.97 %
Totals	$3,468,243	2.02 %

Subordinated debt and other borrowings. Pinnacle Bank receives advances from the FHLB Cincinnati, pursuant to the terms of various borrowing agreements, which assist it in the funding of its home mortgage and commercial real estate loan portfolios. Under the borrowing agreements with the FHLB Cincinnati, Pinnacle Bank has pledged certain qualifying residential mortgage loans and, pursuant to a blanket lien, all qualifying commercial mortgage loans as collateral. At December 31, 2018 and 2017, Pinnacle Financial had received advances from the FHLB Cincinnati totaling $1.4 billion and $1.3 billion, respectively. At December 31, 2018, the scheduled maturities of FHLB Cincinnati advances and interest rates are as follows (in thousands):

	Scheduled Maturities	Weighted average interest rates
2019	$356,000	1.64 %
2020	297,572	1.83 %
2021	398,750	2.44 %
2022	41,250	2.85 %
2023	—	—
Thereafter	350,017	2.36 %
	$1,443,589	
Weighted average interest rate		2.11 %

(1) Some FHLB Cincinnati advances include variable interest rates and could increase in the future. The table reflects rates in effect as of December 31, 2018.

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We have entered into and acquired a number of statutory business trusts which were established to issue 30-year trust preferred securities and related junior subordinated debt instruments, certain other subordinated debt agreements and a $75.0 million revolving credit facility. These instruments are outlined below (in thousands):

Name	Date Established	Maturity	Total Debt Outstanding	Interest Rate at December 31, 2018		Coupon Structure
Trust preferred securities						
Pinnacle Statutory Trust I	December 29, 2003	December 30, 2033	$ 10,310	5.59	%	30-day LIBOR + 2.80%
Pinnacle Statutory Trust II	September 15, 2005	September 30, 2035	20,619	4.20	%	30-day LIBOR + 1.40%
Pinnacle Statutory Trust III	September 7, 2006	September 30, 2036	20,619	4.45	%	30-day LIBOR + 1.65%
Pinnacle Statutory Trust IV	October 31, 2007	September 30, 2037	30,928	5.64	%	30-day LIBOR + 2.85%
BNC Capital Trust I	April 3, 2003	April 15, 2033	5,155	5.69	%	30-day LIBOR + 3.25%
BNC Capital Trust II	March 11, 2004	April 7, 2034	6,186	5.29	%	30-day LIBOR + 2.85%
BNC Capital Trust III	September 23, 2004	September 23, 2034	5,155	4.84	%	30-day LIBOR + 2.40%
BNC Capital Trust IV	September 27, 2006	December 31, 2036	7,217	4.50	%	30-day LIBOR + 1.70%
Valley Financial Trust I	June 26, 2003	June 26, 2033	4,124	5.92	%	30-day LIBOR + 3.10%
Valley Financial Trust II	September 26, 2005	December 15, 2035	7,217	4.28	%	30-day LIBOR + 1.49%
Valley Financial Trust III	December 15, 2006	January 30, 2037	5,155	4.25	%	30-day LIBOR + 1.73%
Southcoast Capital Trust III	August 5, 2005	September 30, 2035	10,310	4.30	%	30-day LIBOR + 1.50%
Subordinated Debt						
Pinnacle Bank Subordinated Notes	July 30, 2015	July 30, 2025	60,000	4.88	%	Fixed(1)
Pinnacle Bank Subordinated Notes	March 10, 2016	July 30, 2025	70,000	4.88	%	Fixed(1)
Avenue Subordinated Notes	December 29, 2014	December 29, 2024	20,000	6.75	%	Fixed(2)
Pinnacle Financial Subordinated Notes	November 16, 2016	November 16, 2026	120,000	5.25	%	Fixed(3)
BNC Subordinated Notes	September 25, 2014	October 1, 2024	60,000	5.50	%	Fixed(4)
BNC Subordinated Note	October 15, 2013	October 15, 2023	9,880	7.34	%	30-day LIBOR + 5.0%(5)
Other Borrowings						
Revolving credit facility(6)	April 26, 2018	April 25, 2019	20,000	4.10	%	

		30-day LIBOR + 1.75%
Debt issuance costs and fair value adjustment	(7,745)	
Total subordinated debt and other borrowings	$ 485,130	

(1) Migrates to three month LIBOR + 3.128% beginning July 30, 2020 through the end of the term.
(2) Migrates to three month LIBOR + 4.95% beginning January 1, 2020 through the end of the term.
(3) Migrates to three month LIBOR + 3.884% beginning November 16, 2021 through the end of the term.
(4) Migrates to three month LIBOR + 3.59% beginning October 1, 2019 through the end of the term if not redeemed on that date.
(5) Coupon structure includes a floor of 5.0% and a cap of 9.5%.
(6) Borrowing capacity on the revolving credit facility is $75.0 million. An unused fee of 0.35% is assessed on the average daily unused amount of the loan.

Pinnacle Financial's total assets are in excess of $15.0 billion as a result of acquisitions, which caused the subordinated debentures Pinnacle Financial and its acquired entities issued in connection with trust preferred transactions to cease to qualify as Tier 1 capital under applicable banking regulations. Though these securities no longer qualify as Tier 1 capital, Pinnacle Financial believes these subordinated debentures continue to qualify as Tier 2 capital.

At December 31, 2018, we had borrowed $20.0 million under our $75.0 million revolving credit facility that matures on April 25, 2019. Borrowings under the revolving credit facility bear interest at a rate of 30-day LIBOR plus 1.75%.

Capital Resources. At December 31, 2018 and 2017, our stockholders' equity amounted to $4.0 billion and $3.7 billion, respectively. The increase is primarily attributable to net income and partially offset by a decrease in other comprehensive income. At December 31, 2018, Pinnacle Bank's CET1 capital ratio was 10.5%, Tier 1 capital ratio was 10.5%, total capital ratio was 11.5% and Tier 1 leverage ratio was 9.8%, compared to 10.3%, 10.3%, 11.3% and 9.7% at December 31, 2017, respectively. At December 31, 2018, Pinnacle Financial's CET1 capital ratio was 9.6%, Tier 1 capital ratio was 9.6%, total capital ratio was 12.2% and Tier 1 leverage ratio was 8.9%, compared to 9.1%, 9.1%, 12.0% and 8.6% at December 31, 2017, respectively.

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We and our bank subsidiary are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can lead to certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on our financial condition or results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we and our bank subsidiary 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. Our and Pinnacle Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us and our bank subsidiary to maintain minimum amounts and ratios of CET1 capital to risk-weighted assets, Tier 1 capital to risk-weighted assets, total capital to risk-weighted assets and of Tier 1 capital to average assets.

The final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for us on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The minimum capital level requirements applicable to bank holding companies and banks subject to the rules are: (i) a CET1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6%; (iii) a total capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4% for all institutions. The Basel III rules, also establish a capital conservation buffer of 2.5% (to be phased in over three years) above the regulatory minimum risk-based capital ratios. The capital conservation buffer was phased in beginning in January 2016 at 0.625% and increased each year by a like percentage until fully implemented in January 2019. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. Management believes, as of December 31, 2018, that we had met all capital adequacy requirements to which we are subject.

In December 2017, the Basel Committee on Banking Supervision published the last version of the Basel III accord, generally referred to as “Basel IV.” The Basel Committee stated that a key objective of the revisions incorporated into the framework is to reduce excessive variability of risk-weighted assets (“RWA”), which will be accomplished by enhancing the robustness and risk sensitivity of the standardized approaches for credit risk and operational risk, which will facilitate the comparability of banks’ capital ratios; constraining the use of internally modeled approaches; and complementing the risk-weighted capital ratio with a finalized leverage ratio and a revised and robust capital floor. Leadership of the federal banking agencies who are tasked with implementing Basel IV has indicated that it is considering how to appropriately apply these revisions in the United States. Although it is uncertain at this time, we anticipate some, if not all, of the Basel IV accord may be incorporated into the capital requirements framework applicable to us and Pinnacle Bank.

In January 2017, we completed the public offering of 3.22 million shares of our common stock in a transaction that resulted in net proceeds to us, after deducing underwriting discounts and commissions and estimated other expenses payable by us, of $191.2 million. We have contributed $185.0 million of these net proceeds to our bank subsidiary.

Share Repurchase Program. In November 2018, our board of directors authorized a stock repurchase program pursuant to which we may purchase up to $100 million in shares of our outstanding common stock. Share repurchases under the program will be made from time to time, in the open market, in privately negotiated transactions or otherwise, at the discretion of the management and in accordance with applicable legal requirements. The timing of these repurchases will depend on a number of factors, including the market price of our common stock, general market and economic conditions, and applicable legal requirements. We currently anticipate that the stock repurchase program will remain in effect through December 31, 2019, or earlier if the entire authorized amount of shares has been repurchased. The stock repurchase program does not obligate us to repurchase any dollar amount or number of shares, and the program may be extended, modified, amended, suspended, or discontinued at any time. As of December 31, 2018, we had repurchased 405,200 shares under the program for an aggregate purchase price of $20.7 million.

Dividends. Pursuant to Tennessee banking law, Pinnacle Bank may not, without the prior consent of the TDFI, pay any dividends to us in a calendar year in excess of the total of its retained net profits for that year plus the retained net profits for the preceding two years. During the year ended December 31, 2018, Pinnacle Bank paid dividends of $83.1 million to us which was within the limits allowed by the TDFI.

During the year ended December 31, 2018, we paid $45.5 million in dividends to common shareholders. On January 15, 2019 our board of directors declared a $0.16 quarterly cash dividend to common shareholders of approximately $12.7 million in aggregate that was paid on February 22, 2019 to common shareholders of record as of the close of business on February 1, 2019. The amount and timing of all future dividend payments, if any, is subject to board discretion and will depend on our earnings, capital position, financial condition and other factors, including new regulatory capital requirements, as they become known to us.

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Market and Liquidity Risk Management

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

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

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

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

Instantaneous Rate Change	December 31, 2018	
100 bps increase	4.2	%
200 bps increase	7.6	%
100 bps decrease	(5.4	%)

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

The behavior of our deposit portfolio in the baseline forecast and in alternate interest rate scenarios set out in the table above is a key assumption in our projected estimates of net interest income. The projected impact on net interest income in the table above assumes no change in deposit portfolio size or mix from the baseline forecast in alternative rate environments. In higher rate scenarios, any customer activity resulting in the replacement of low-cost or noninterest-bearing deposits with higher-yielding deposits or market-based funding would reduce our benefit in those scenarios.

At December 31, 2018, our earnings simulation model indicated we were in compliance with our policies for interest rate scenarios for which we model as required by our board approved Asset Liability Policy. The board has suspended the requirement to model the down 300 and 400 bps scenario while 10 year maturity Treasury rates are below 3.0%, which was the case as of December 31, 2018.

Economic value of equity model. While earnings simulation modeling attempts to determine the impact of a changing rate environment to our net interest income, our EVE model measures estimated changes to the economic values of our assets, liabilities and off-balance sheet items as a result of interest rate changes. Economic values are determined by discounting expected cash flows from assets, liabilities and off-balance sheet items, which establishes a base case EVE. We then shock rates as prescribed by our Asset Liability Policy and measure the sensitivity in EVE values for each of those shocked rate scenarios versus the base case. The Asset Liability Policy sets limits for those sensitivities. At December 31, 2018, our EVE modeling indicates the following changes in EVE due to instantaneous upward and downward changes in rates:

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Instantaneous Rate Change	December 31, 2018
100 bps increase	(1.2 %)
200 bps increase	(4.0 %)
100 bps decrease	(1.8 %)

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

At December 31, 2018, our EVE model indicated we were in compliance with our policies for all interest rate scenarios for which we model as required by our board approved Asset Liability Policy. The board has suspended the requirement to model the down 300 and 400 bps scenario while 10 year maturity Treasury rates are below 3.0%, which was the case as of December 31, 2018.

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

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

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

ALCO may determine that Pinnacle Financial should over time become more or less asset or liability sensitive depending on the underlying balance sheet circumstances and our conclusions as to anticipated interest rate fluctuations in future periods. At present, ALCO has determined that its "most likely" rate scenario considers two increases in short-term interest rates in 2019. Should these two rate hikes not occur, net interest income in 2019 could be modestly lower as we believe our balance sheet will react more favorably to the forecasted rate hikes. Our "most likely" rate forecast has been largely consistent over recent quarters and is based primarily on information we acquire from a service which includes a consensus forecast of numerous interest rate benchmarks. We may implement additional actions designed to achieve our desired sensitivity position which could change from time to time.

We have in the past used, and may in the future continue to use, derivative financial instruments as one tool to manage our interest rate sensitivity, including that inherent in our mortgage lending program, while continuing to meet the credit and deposit needs of our customers.

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We may also enter into interest rate swaps to facilitate customer transactions and meet their financing needs. These swaps qualify as derivatives, even though they are not designated as hedging instruments.

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

To assist in determining the adequacy of our liquidity, we perform a variety of liquidity stress tests including idiosyncratic, systemic and combined scenarios for both moderate and severe events. Liquidity is defined as the ability to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining our ability to meet the daily cash flow requirements of our customers, both depositors and borrowers. We seek to maintain a sufficiently liquid asset balance to ensure our ability to meet our obligations. The amount of the appropriate minimum liquid asset balance is determined through severe liquidity stress testing as measured by our liquidity coverage ratio calculation. At December 31, 2018, we were in compliance with our liquidity coverage ratio.

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

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

As noted previously, Pinnacle Bank is a member of the FHLB Cincinnati and, pursuant to a borrowing agreement with the FHLB Cincinnati, has pledged certain assets pursuant to a blanket lien. As such, Pinnacle Bank may use the FHLB Cincinnati as a source of liquidity depending on the firm's ALCO strategies. Additionally, we may pledge additional qualifying assets or reduce the amount of pledged assets with the FHLB Cincinnati to increase or decrease our borrowing capacity at the FHLB Cincinnati. At December 31, 2018, we believe we had an estimated $2.6 billion in additional borrowing capacity with the FHLB Cincinnati; however, incremental borrowings are made via a formal request by Pinnacle Bank and the subsequent approval by the FHLB Cincinnati.

Pinnacle Bank also has accommodations with upstream correspondent banks for unsecured short-term advances which aggregate $170.0 million. These accommodations have various covenants related to their term and availability, and in most cases must be repaid within less than a month. There were no outstanding borrowings under these agreements at December 31, 2018, or during the year then ended, although we test the availability of these accommodations annually. Pinnacle Bank also had approximately $3.4 billion in available Federal Reserve discount window lines of credit at December 31, 2018.

At December 31, 2018, we had approximately $1.7 billion in brokered deposits compared to approximately $1.2 billion in brokered deposits at December 31, 2017. Historically, we have issued brokered certificates through several different brokerage houses based on competitive bid. Our brokered deposit levels increased from 2017 by approximately $500 million as we issued more brokered deposits in the second quarter of 2018 to augment funding needs of the bank. Typically, these funds have been for varying maturities of up to two years and were issued at rates which were competitive to rates that we would be required to pay to attract similar deposits within many of our local markets as well as rates for FHLB Cincinnati advances of similar maturities.

Industry regulators have defined additional liquidity guidelines, through the issuance of the Basel III Liquidity Coverage Ratio (LCR) and the Modified LCR, for banking institutions greater than $250 billion in assets, and $50 billion in assets respectively, in the United States. These regulatory guidelines became effective January 2015 with phase in over subsequent years and will require these large institutions to follow prescriptive guidance in determining an absolute level of a high quality liquid asset (HQLA) buffer that must be maintained on their balance sheets in order to withstand a potential liquidity crisis event. Although Pinnacle Financial follows the principles outlined in the Interagency Policy Statement on Liquidity Risk Management, issued March 2010, to determine its HQLA buffer, Pinnacle Financial is not currently subject to these regulations. However, these formulas could eventually be imposed on smaller banks, such as Pinnacle Bank, and require an increase in the absolute level of liquidity on our balance sheet, which could result in lower net interest margins for us in future periods.

At December 31, 2018, we had no individually significant commitment for capital expenditures. But, we believe the number of our locations will increase over an extended period time, particularly in our Tennessee markets. In future periods, these expansions may lead

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to higher equipment and occupancy expenses as well as related increases in salaries and benefits expense. There are no current plans to materially expand our branch distribution in the Carolinas and Virginia though we anticipate replacing a location in Virginia with a newly constructed facility in 2019.

Our short-term borrowings (borrowings which mature within the next fiscal year) consist primarily of securities sold under agreements to repurchase (these agreements are typically associated with comprehensive treasury management programs for our clients and provide them with short-term returns on their excess funds), FHLB Cincinnati advances and borrowings under our revolving credit facility. Information concerning our short-term borrowings as of and for each of the years in the three-year period ended December 31, 2018 is as follows (in thousands):

	At December 31,		
	2018	2017	2016
Amounts outstanding at year-end:			
Securities sold under agreements to repurchase	$104,741	$135,262	$85,706
Federal funds purchased	—	—	—
Federal Home Loan Bank short-term advances	356,000	557,501	392,000
Borrowings under credit facility	20,000	—	—
Weighted average interest rates at year-end:			
Securities sold under agreements to repurchase	0.50 %	0.35 %	0.22 %
Federal funds purchased	—	—	—
Federal Home Loan Bank short-term advances	1.64 %	1.46 %	0.79 %
Borrowings under credit facility	4.10 %	—	—
Maximum amount of borrowings at any month-end:			
Securities sold under agreements to repurchase	$143,686	$205,008	$92,941
Federal funds purchased	—	50,000	2,567
Federal Home Loan Bank short-term advances	1,002,501	1,011,500	763,000
Borrowings under credit facility	20,000	—	—
Average balances for the year:			
Securities sold under agreements to repurchase	$129,899	$115,573	$75,950
Federal funds purchased	1,132	1,189	1,219
Federal Home Loan Bank short-term advances	604,646	528,042	489,333
Borrowings under credit facility	109	—	—
Weighted average interest rates for the year:			
Securities sold under agreements to repurchase	0.45 %	0.36 %	0.24 %
Federal funds purchased	1.87 %	1.02 %	0.98 %
Federal Home Loan Bank short-term advances	1.76 %	1.22 %	0.62 %
Borrowings under credit facility	3.48 %	—	—

The following table presents additional information about our contractual obligations as of December 31, 2018, which by their terms have contractual maturity and termination dates subsequent to December 31, 2018 (in thousands):

	At December 31, 2018				
	Next 12 months	13-36 months	37-60 months	More than 60 months	Totals
Contractual obligations:					
Certificates of deposit (1)	$2,477,701	$1,055,615	$46,821	$3,030	$3,583,167
Deposits without a stated maturity (2)	15,382,427	—	—	—	15,382,427
Securities sold under agreements to repurchase (1)	104,741	—	—	—	104,741
Federal Home Loan Bank advances (3)	356,000	696,322	41,250	350,017	1,443,589
Junior subordinated debentures (4)	—	—	—	132,995	132,995
Subordinated notes (5)	2,080	4,160	3,640	330,000	339,880
Minimum operating lease commitments	12,889	23,332	18,230	43,730	98,181
Capital lease obligations	470	940	949	2,548	4,907
Totals	$18,336,308	$1,780,369	$110,890	$862,320	$21,089,887

(1) Includes interest through the contractual maturity.
(2) Includes interest accrued and unpaid through December 31, 2018.
(3) Represents principal payments on Federal Home Loan Bank Advances. See Note 9 "Federal Home Loan Bank Advances" to our consolidated financial statements for information on the interest rates paid on these advances.
(4) Represents principal payments on junior subordinated debentures issued in connection with trust preferred securities sold by affiliated trusts. See Note 10 "Other Borrowings" to our consolidated financial statements for information on interest rates paid on these debentures.
(5) Represents principal payments on subordinated notes outstanding. See Note 10 "Other Borrowings" to our consolidated financial statements for information on interest rates paid on these notes.

Our management believes that we have adequate liquidity to meet all known contractual obligations and unfunded commitments, including loan commitments and reasonable borrower, depositor, and creditor requirements over the next twelve months. Our operating lease commitments are primarily related to our branch and headquarters facilities. The terms of these leases expire at various points ranging from 2019 through 2048. At December 31, 2018, our total minimum operating lease commitment was $98.2 million. Effective January 1, 2019, Pinnacle Financial adopted FASB ASC 842, which requires the recognition of a right of use asset and a lease liability generally equal to the present value of these minimum operating lease commitments. See Recently Adopted Accounting Pronouncements for additional information related to the adoption of FASB ASC 842.

Off-Balance Sheet Arrangements. At December 31, 2018, we had outstanding standby letters of credit of $177.5 million and unfunded loan commitments outstanding of $6.9 billion. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, Pinnacle Bank has the ability to liquidate Federal funds sold or securities available-for-sale, or on a short-term basis to borrow and purchase Federal funds from other financial institutions. The following table presents additional information about our unfunded commitments as of December 31, 2018, which by their terms, have contractual maturity dates subsequent to December 31, 2018 (in thousands):

	At December 31, 2018				
	Next 12 months	13-36 months	37-60 months	More than 60 months	Totals
Unfunded commitments:					
Lines of credit	$2,672,405	$1,839,802	$1,101,051	$1,308,431	$6,921,689
Letters of credit	156,193	20,301	631	350	177,475
Totals	$2,828,598	$1,860,103	$1,101,682	$1,308,781	$7,099,164

We follow the same credit policies and underwriting practices when making these commitments as we do for on-balance sheet instruments. Each customer's creditworthiness is evaluated on a case-by-case basis and the amount of collateral obtained, if any, is based on management's credit evaluation of the customer. However, should the commitments be drawn upon and should our customers default on their resulting obligation to us, our maximum exposure to credit loss, without consideration of collateral, is represented by the contractual amount of those instruments. At December 31, 2018, we had accrued $2.9 million for the inherent risks associated with off-balance sheet commitments.

Risk Management

As a financial institution, we take on a certain amount of risk in every business decision, transaction and activity. Risk management does not eliminate risk, but seeks to achieve an appropriate balance between risk and return, which is critical to optimizing shareholder value.

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Understanding our risks and managing them appropriately can enhance our ability to make better decisions, deliver on objectives, and improve performance.

Our board of directors and members of senior management have identified major categories of risk: credit risk, liquidity risk, strategic risk, reputational risk, operational risk, compliance risk, information technology risk, asset liability management risk, capital risk, financial reporting risk, HR employment practices risk and non-bank activities risk. In its oversight role of our risk management function, our board of directors, acting principally, but not exclusively, through a Risk Committee comprised solely of independent directors, focuses on the strategies, analyses and conclusions of management relating to identifying, understanding and managing risks so as to optimize total shareholder value, while balancing prudent business and safety and soundness considerations. The Risk Committee (or in some cases the full board of directors) fulfills the overarching oversight role for the risk management process, including approving risk appetite and tolerance levels, risk policies and limits, monitoring key and emerging risks, and reviewing risk assessment results. In addition, oversight of certain risk is allocated to other committees of the board of directors that meet regularly and report to our board of directors, including the Audit Committee and Human Resources and Compensation Committee.

The Chief Risk Officer reports to the Chief Executive Officer and provides overall vision, direction and leadership regarding the enterprise risk management framework. The framework includes an Enterprise Wide Risk Management Committee, chaired by the Chief Risk Officer, and various management-level risk committees that focus on specific areas of risk management. The Enterprise Wide Risk Management Committee, which is comprised of the Chief Executive Officer, Chief Financial Officer, Chief Administrative Officer, Chief Risk Officer, Chief Compliance Officer and Chief Credit Officer, provides management oversight of our enterprise-wide risk management program. Additional management-level risk committees are responsible for effective risk measurement, management and reporting of their respective risk categories. The Chief Risk Officer is an active member of each of the management-level risk committees.

Our board of directors has adopted a risk appetite statement that seeks to balance the amount of risk we are willing take as we seek to achieve our financial performance objectives, i.e. returns. As such, our board of directors, principally acting through the Risk Committee, routinely monitors a host of risk metrics from both business and operational units, as well as by risk category, in an effort to appropriately balance the manner in which our performance aligns with our risk appetite. The Risk Committee and members of senior management, including the Chief Risk Officer, review assessments of our risk ratings within each of our key areas of risk on a regular basis. The Chief Risk Officer’s report to the Risk Committee includes the assessment of level and direction of risk within each key area, an assessment of critical factors that influence firm risks as well as the status of risk actions management is taking to mitigate and control key risks. These reviews are done in an effort to ensure performance alignment with our risk appetite, and where appropriate, trigger adjustments to applicable business strategies and tactics where risks approach our desired risk tolerance limits.

We support our risk management process through a governance structure involving our board of directors and senior management. The Risk Committee strives to ensure that business decisions are executed within appropriate risk tolerances. The Risk Committee is responsible for overseeing senior management’s establishment and operation of our risk framework and our strategic and capital plans are aligned with the risk appetite approved by our board of directors. The Risk Committee serves as the primary point of contact between our board of directors and the Enterprise Wide Risk Management Committee. Management-level risk committees are responsible for effective risk measurement, managing and reporting of their respective risk categories.

Risk appetite is an integral element of our business and capital planning processes through our Risk Committee and Enterprise Wide Risk Management Committee. We use our risk appetite processes to promote appropriate alignment of risk, capital and performance tactics, while also considering risk capacity and appetite constraints from both financial and non-financial risks. Our Risk Committee, in collaboration with our Enterprise Wide Risk Management Committee, approves our risk appetite on an annual basis, or more frequently, as needed to reflect changes in the risk environment, with the goal of ensuring that our risk appetite remains consistent with our strategic plans and business operations, regulatory environment and our shareholders' expectations. Reports relating to our risk appetite and strategic plans, and our ongoing monitoring thereof, are regularly presented to our various management-level risk oversight and planning committees and periodically reported up to the Risk Committee of our board of directors.

As noted above, we have an Enterprise Wide Risk Management Committee comprised of key members of senior management. The purpose of this committee is to provide regular oversight of specific areas of risk within the tolerances and framework established by our Risk Committee and board of directors. The Enterprise Wide Risk Management Committee reports on a regular basis to the Risk Committee of our board of directors regarding our enterprise-wide risk profile and other significant risk management issues. Our Chief Risk Officer is responsible for the design and implementation of our enterprise-wide risk management strategy and framework and through his work with other senior associates seeks to ensure the coordinated and consistent implementation of risk management initiatives and strategies on a day-to-day basis.

Various departments within Pinnacle Bank, working with our Chief Risk Officer, are responsible for developing policies and procedures to effectively monitor risks within their areas. For instance, our compliance department is responsible for developing policies and procedures and monitoring compliance with applicable laws and regulations while our information technology department is responsible for maintaining a risk assessment of our information and cyber security risks and ensuring appropriate controls are in place to manage

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and control such risks, including designing appropriate testing plans to ensure the integrity of information and cyber security controls. Further, our audit function (including our outsourced internal audit function) performs an independent assessment of our internal controls environment and plays an integral role in testing the operation of the internal controls systems and reporting findings to management and our Audit Committee. Both the Risk Committee and Audit Committee of our board of directors regularly report on risk-related matters to the full board of directors. In addition, both the Risk Committee of our board of directors and our Enterprise Wide Risk Management Committee regularly assess our enterprise-wide risk profile and provide guidance on actions needed to address key and emerging risk issues.

Our board of directors believes that our enterprise-wide risk management process is effective and enables the board of directors to:

- assess the quality of the information we receive;
- understand the businesses, investments and financial, accounting, legal, regulatory and strategic considerations and the risks that we face;
- oversee and assess how senior management evaluates and manages risk; and
- assess appropriately the quality of our enterprise-wide risk management process.

Impact of Inflation

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

Recently Adopted and Issued Accounting Pronouncements

See "Part II- Item 8. Financial Statements and Supplementary Data - Note 1. - Summary of Significant Accounting Policies" of this Report for further information.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The response to this Item is included in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations", on pages 43 through 78 and is incorporated herein by reference.

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ITEM 8. FINANCIAL STATEMENTS

Pinnacle Financial Partners, Inc. and Subsidiaries

Consolidated Financial Statements

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MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Pinnacle Financial Partners, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) or 15d-15(f) promulgated under the Exchange Act. The Company's internal control over financial reporting is a process designed by, or under the supervision of, the Company’s principal executive and principal financial officer and effected by the Company’s Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company’s assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013).

Material Weakness Related to Certain Residential Mortgage Loan Originations

Based on the assessment of the effectiveness of the Company’s internal control over financial reporting discussed above, management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2018 due to a material weakness arising from certain control deficiencies existing during 2018 related to residential mortgage loans originated by the Company. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis.

The Company’s internal controls are designed such that all loans recorded in its loan accounting system must be subsequently agreed to source documentation by someone independent of the recording function to ensure the loan was recorded accurately (i.e., an accuracy control). Additionally, the Company has a separate completeness control to ensure that all loans recorded to the loan accounting system have been subjected to this accuracy control (i.e., a completeness control). In the fourth of quarter 2018, management determined that these controls were not operating in a timely manner for mortgage loans recorded to the Company’s loan accounting system. Further, management identified a limited number of individuals in the Company’s mortgage loan group that had the ability to record a mortgage loan to the system during 2018 and subsequently create and approve a wire transfer to disburse the funds on the mortgage loan. The wire access available to these associates, without sufficient segregation of duties, combined with the previously described control deficiencies, resulted in management concluding that the combination of these control deficiencies represented a material weakness in internal control over financial reporting.

Upon identification of these control deficiencies, management performed the controls as described to ensure mortgage loans originated in 2018 existed and were accurately entered into the Company’s financial records. Management also performed procedures regarding the wire transfers initiated by the mortgage associates which had the ability to both record a loan and initiate wire transfers. It was concluded that all of these wire transfers, which totaled $2.6 million, were initiated to fund valid loans. As a result of these procedures, management concluded that the existence of this material weakness did not result in any material misstatement of the Company’s interim or annual financial statements

or related disclosures for the fiscal year ended December 31, 2018, nor was there any financial loss incurred by the Company as a result of this material weakness.
The Company's independent registered public accounting firm has issued an audit report on the Company's internal control over financial reporting. This report appears on page 82 of this Annual Report on Form 10-K.

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Remediation of Material Weakness

The Company has made progress toward remediation of the underlying causes of the above-described material weakness for residential mortgage loans originated in 2018. Prior to the filing of this Annual Report on Form 10-K Company associates independent of those responsible for recording the residential mortgage loans have performed the required internal controls that were previously not completed in a timely manner.

As a result of these remediation efforts, the Company has verified that the residential mortgage loans originated by the Company during the period of time when the controls were not functioning properly existed and were accurately recorded at the time of origination. However, the identified material weakness in internal control over financial reporting will not be considered fully addressed until the internal controls over this area have been in operation for a sufficient period of time for the Company's management to conclude that the material weakness has been fully remediated. The Company will continue to evaluate these internal controls in 2019. As a result, the Company may alter its control structure to enhance these and other related controls in this area, but the Company's evaluation as to full remediation will primarily involve an ongoing review of its current control structure to make sure the controls in this area are being performed as designed by the individuals responsible for performance of these controls. Once this evaluation is complete, the Company will make its final determination as to full remediation.

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Report of Independent Registered Public Accounting Firm

Stockholders and the Board of Directors of
Pinnacle Financial Partners, Inc.
Nashville, Tennessee

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Pinnacle Financial Partners, Inc. (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 28, 2019 expressed an adverse opinion.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Crowe LLP

We have served as the Company's auditor since 2016.

Franklin, Tennessee
February 28, 2019

Report of Independent Registered Public Accounting Firm

Stockholders and the Board of Directors of
Pinnacle Financial Partners, Inc.
Nashville, Tennessee

Opinion on Internal Control over Financial Reporting

We have audited Pinnacle Financial Partners, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effects of the material weakness discussed in the following paragraphs, the Company has not maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework: (2013) issued by COSO.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness related to controls over verifying the accuracy of new residential mortgage loans on the loan accounting system has been identified and included in Management Report on Internal Control over Financial Reporting.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements") and our report dated February 28, 2019 expressed an unqualified opinion. We considered the material weakness identified above in determining the nature, timing, and extent of audit procedures applied in our audit of the 2018 financial statements, and this report on Internal Control over Financial Reporting does not affect such report on the financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

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Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Crowe LLP

Franklin, Tennessee
February 28, 2019

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

	December 31,	
ASSETS	2018	2017
Cash and noninterest-bearing due from banks	$137,433	$155,815
Restricted cash	65,491	20,738
Interest-bearing due from banks	516,920	496,911
Federal funds sold and other	1,848	106,132
Cash and cash equivalents	721,692	779,596
Securities available-for-sale, at fair value	3,083,686	2,515,283
Securities held-to-maturity (fair value of $193.1 million and $20.8 million at Dec. 31, 2018 and Dec. 31, 2017, respectively)	194,282	20,762
Consumer loans held-for-sale	34,196	103,729
Commercial loans held-for-sale	15,954	25,456
Loans	17,707,549	15,633,116
Less allowance for loan losses	(83,575)	(67,240)
Loans, net	17,623,974	15,565,876
Premises and equipment, net	265,560	266,014
Equity method investment	239,237	221,667
Accrued interest receivable	79,657	57,440
Goodwill	1,807,121	1,808,002
Core deposits and other intangible assets	46,161	56,710
Other real estate owned	15,165	27,831
Other assets	904,359	757,334
Total assets	$25,031,044	$22,205,700
Deposits:		
Non-interest-bearing	$4,309,067	$4,381,386
Interest-bearing	3,464,001	2,987,291
Savings and money market accounts	7,607,796	6,548,964
Time	3,468,243	2,534,061
Total deposits	18,849,107	16,451,702
Securities sold under agreements to repurchase	104,741	135,262
Federal Home Loan Bank advances	1,443,589	1,319,909
Subordinated debt and other borrowings	485,130	465,505
Accrued interest payable	23,586	10,480
Other liabilities	158,951	114,890
Total liabilities	21,065,104	18,497,748
Stockholders' equity:		
Preferred stock, no par value; 10.0 million shares authorized; no shares issued and outstanding	—	—
Common stock, par value $1.00; 180.0 million shares authorized at Dec. 31, 2018 and 90.0 million shares authorized at Dec. 31, 2017; 77.5 million and 77.7 million shares issued and outstanding at Dec. 31, 2018 and 2017, respectively	77,484	77,740

Additional paid-in capital	3,107,431	3,115,304
Retained earnings	833,130	519,144
Accumulated other comprehensive loss, net of taxes	(52,105)	(4,236)
Total stockholders' equity	3,965,940	3,707,952
Total liabilities and stockholders' equity	$25,031,044	$22,205,700

See accompanying notes to consolidated financial statements.

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

	For the years ended December 31,		
	2018	2017	2016
Interest income:			
Loans, including fees	$850,472	$578,286	$335,735
Securities:			
Taxable	48,192	39,060	19,179
Tax-exempt	35,995	13,712	6,014
Federal funds sold and other	12,058	5,080	2,681
Total interest income	946,717	636,138	363,609
Interest expense:			
Deposits	151,043	59,584	23,918
Securities sold under agreements to repurchase	588	406	185
Federal Home Loan Bank advances and other borrowings	58,744	32,842	14,512
Total interest expense	210,375	92,832	38,615
Net interest income	736,342	543,306	324,994
Provision for loan losses	34,377	23,664	18,328
Net interest income after provision for loan losses	701,965	519,642	306,666
Noninterest income:			
Service charges on deposit accounts	24,906	20,034	14,501
Investment services	21,175	14,315	10,757
Insurance sales commissions	9,331	7,405	5,310
Gains on mortgage loans sold, net	14,564	18,625	15,754
Investment gains (losses) on sales, net	(2,254)	(8,265)	395
Trust fees	13,143	8,664	6,328
Income from equity method investment	51,222	37,958	31,403
Other noninterest income	68,783	46,168	36,555
Total noninterest income	200,870	144,904	121,003
Noninterest expense:			
Salaries and employee benefits	271,673	209,662	140,819
Equipment and occupancy	74,276	54,092	35,072
Other real estate expense, net	723	1,079	396
Marketing and other business development	11,712	8,321	6,536
Postage and supplies	7,815	5,736	3,929
Amortization of intangibles	10,549	8,816	4,281
Merger related expenses	8,259	31,843	11,747
Other noninterest expense	67,880	47,011	33,505
Total noninterest expense	452,887	366,560	236,285
Income before income taxes	449,948	297,986	191,384
Income tax expense	90,508	124,007	64,159
Net income	$359,440	$173,979	$127,225
Per share information:			
Basic net income per common share	$4.66	$2.73	$2.96

Diluted net income per common share	$4.64	$2.70	$2.91
Weighted average common shares outstanding:			
Basic	77,111,372	63,760,578	43,037,083
Diluted	77,449,917	64,328,189	43,731,992

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2018	2017	2016
Net income:	$359,440	$173,979	$127,225
Other comprehensive income (loss), net of tax:			
Changes in fair value on available-for-sale securities, net of tax	(51,464)	3,036	(9,408)
Changes in fair value of cash flow hedges, net of tax	2,660	2,487	(749)
Amortization of net unrealized gains on securities transferred from available-for-sale to held-to-maturity, net of tax	(73)	(208)	(293)
Gain on cash flow hedges reclassified from other comprehensive income into net income, net of tax	(657)	(347)	(51)
Net loss (gain) on sale of investment securities reclassified from other comprehensive income into net income, net of tax	1,665	5,022	(240)
Total other comprehensive income (loss), net of tax	(47,869)	9,990	(10,741)
Total comprehensive income	$311,571	$183,969	$116,484

See accompanying notes to consolidated financial statements.

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

For the each of the years in the three-year period ended December 31, 2018

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
December 31, 2015	40,906	$40,906	$839,617	$278,573	$ (3,485)	$ 1,155,611
Exercise of employee common stock options, stock appreciation rights and related tax benefits	700	700	16,736	—	—	17,436
Common dividends paid ($0.14 per share)	—	—	—	(24,726)	—	(24,726)
Issuance of restricted common shares, net of forfeitures	200	200	(200)	—	—	—
Common stock issued in conjunction with BHG investment, net of issuance costs	860	860	38,834	—	—	39,694
Common stock issued in conjunction with Avenue acquisition, net of issuance costs	3,760	3,760	178,708	—	—	182,468
Restricted shares withheld for taxes	(67)	(67)	(1,175)	—	—	(1,242)
Compensation expense for restricted shares	—	—	10,971	—	—	10,971
Net income	—	—	—	127,225	—	127,225
Other comprehensive loss	—	—	—	—	(10,741)	(10,741)
December 31, 2016	46,359	$46,359	$ 1,083,491	$381,072	$ (14,226)	$ 1,496,696
Exercise of employee common stock options and stock appreciation rights	276	276	5,209	—	—	5,485
Common dividends paid ($0.14 per share)	—	—	—	(35,907)	—	(35,907)
Issuance of restricted common shares, net of forfeitures	272	272	(272)	—	—	—
Issuance of common stock	3,220	3,220	188,974	—	—	192,194
Common stock issued in conjunction with the acquisition of BNC Bancorp, net of issuance costs	27,687	27,687	1,823,281	—	—	1,850,968
Restricted shares withheld for taxes	(74)	(74)	(4,917)	—	—	(4,991)
Compensation expense for restricted shares	—	—	19,538	—	—	19,538
Net income	—	—	—	173,979	—	173,979
Other comprehensive income	—	—	—	—	9,990	9,990
December 31, 2017	77,740	$77,740	$ 3,115,304	$519,144	$ (4,236)	$ 3,707,952
Exercise of employee common stock options	98	98	1,753	—	—	1,851
Repurchase of common stock	(405)	(405)	(20,289)	—	—	(20,694)
Common dividends paid ($0.16 per share)	—	—	—	(45,454)	—	(45,454)
Issuance of restricted common shares, net of forfeitures	157	157	(157)	—	—	—
Restricted shares withheld for taxes	(106)	(106)	(6,816)	—	—	(6,922)
Compensation expense for restricted shares	—	—	17,636	—	—	17,636
Net income	—	—	—	359,440	—	359,440

Other comprehensive loss	—	—	—	—	(47,869)	(47,869)
December 31, 2018	77,484	$77,484	$3,107,431	$833,130	$ (52,105)	$3,965,940

See accompanying notes to consolidated financial statements.

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

(in thousands)	For the years ended December 31, 2018	2017	2016
Operating activities:			
Net income	$359,440	$173,979	$127,225
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization/accretion of premium/discount on securities	19,141	12,847	8,630
Depreciation, amortization and accretion	(23,604)	(23,618)	186
Provision for loan losses	34,377	23,664	18,328
Gains on mortgage loans sold, net	(14,564)	(18,625)	(15,754)
Investment losses (gains) on sales, net	2,254	8,265	(395)
Stock-based compensation expense	17,636	19,538	10,971
Deferred tax expense	11,765	28,165	14,390
Revaluation of deferred tax assets and liabilities	—	31,486	—
Losses (gains) on disposition of other real estate and other investments	84	(203)	141
Income from equity method investment	(51,222)	(37,958)	(31,403)
Dividends received from equity method investment	33,651	21,650	28,982
Excess tax benefit from stock compensation	(2,966)	(5,366)	(4,604)
Gains on other loans sold, net	(3,287)	(1,488)	(885)
Commercial loans held for sale originated	(356,597)	(177,434)	(112,670)
Commercial loans held for sale sold	369,387	176,062	90,967
Consumer loans held for sale originated	(1,195,435)	(1,100,866)	(784,214)
Consumer loans held for sale sold	1,234,551	1,090,489	803,498
Increase in other assets	(24,471)	(37,022)	(5,275)
Increase (decrease) in other liabilities	60,617	(17,700)	4,198
Net cash provided by operating activities	470,757	165,865	152,316
Investing activities:			
Activities in securities available-for-sale:			
Purchases	(1,314,721)	(1,290,717)	(583,330)
Sales	169,850	363,898	72,829