PINNACLE FINANCIAL PARTNERS INC
Form 10-Q
August 07, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(mark one)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d)
OF THE SECURITIES AND EXCHANGE ACT OF 1934
For the transition period from ____ to ____
Commission File Number: 000-31225

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

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

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

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

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

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

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

As of August 5, 2015 there were 35,993,413 shares of common stock, $1.00 par value per share, issued and outstanding.

Pinnacle Financial Partners, Inc.
Report on Form 10-Q
June 30, 2015

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FORWARD-LOOKING STATEMENTS

Certain of the statements in this quarterly report on Form 10-Q may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "expect," "anticipate," "goal," "objective," "intend," "plan," "believe," "should," "hope," "seek," "estimate" and similar expressions are intended to identify such forward-looking statements, but other statements not based on historical information may also be considered forward-looking. All forward-looking statements are subject to risks, uncertainties and other factors that may cause the actual results, performance or achievements of Pinnacle Financial to differ materially from any results expressed or implied by such forward-looking statements. Such risks include, without limitation, (i) deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses; (ii) continuation of the historically low short-term interest rate environment; (iii) the inability of Pinnacle Financial to maintain the historical growth of its loan portfolio; (iv) changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments; (v) effectiveness of Pinnacle Financial's asset management activities in improving, resolving or liquidating lower-quality assets; (vi) increased competition with other financial institutions; (vii) greater than anticipated adverse conditions in the national or local economies including the Nashville-Davidson-Murfreesboro-Franklin MSA, the Knoxville MSA and the Chattanooga, TN-GA MSA, particularly in commercial and residential real estate markets; (viii) rapid fluctuations or unanticipated changes in interest rates on loans or deposits; (ix) the results of regulatory examinations; (x) the ability to retain large, uninsured deposits; (xi) the development of any new market other than Nashville, Knoxville, Chattanooga or Memphis MSAs; (xii) a merger or acquisition, like the proposed merger with Magna; (xiii) risks of expansion into new geographic or product markets, like the proposed expansion into the Memphis, TN-MS-AR MSA associated with the proposed merger with Magna; (xiv) any matter that would cause Pinnacle Financial to conclude that there was impairment of any asset, including intangible assets; (xv) reduced ability to attract additional financial advisors (or failure of such advisors to cause their clients to switch to Pinnacle Financial), to retain financial advisors (including those at CapitalMark and Magna) or otherwise to attract customers from other financial institutions; (xvi) further deterioration in the valuation of other real estate owned and increased expenses associated therewith; (xvii) inability to comply with regulatory capital requirements, including those resulting from changes to capital calculation methodologies and required capital maintenance levels; (xviii) risks associated with litigation, including the applicability of insurance coverage; (xix) the risk that the cost savings and any revenue synergies from the recent merger with CapitalMark and the proposed merger with Magna may not be realized or take longer than anticipated to be realized; (xx) disruption from the CapitalMark and Magna mergers with customers, suppliers or employee relationships; (xxi) the occurrence of any event, change or other circumstances that could give rise to a material delay or the termination of the merger agreement that Pinnacle Financial and Pinnacle Bank have entered into with Magna; (xxii) the risk of successful integration of CapitalMark's and Magna's business with ours; (xxiii) the amount of the costs, fees, expenses and charges related to the CapitalMark and Magna mergers; (xxiv) reputational risk and the reaction of Pinnacle Financial's, CapitalMark's and Magna's customers to the recent CapitalMark merger and proposed Magna merger; (xxv) the failure of the closing conditions of the Magna merger to be satisfied; (xxvi) the risk that the integration of CapitalMark's and Magna's operations with Pinnacle Financial's will be materially delayed or will be more costly or difficult than expected; (xxvii) the possibility that the CapitalMark and Magna mergers may be more expensive to complete than anticipated, including as a result of unexpected factors or events; (xxviii) the dilution caused by Pinnacle Financial's issuance of additional shares of its common stock in the Magna merger; (xxix) approval of the declaration of any dividend by Pinnacle Financial's board of directors; (xxx) the vulnerability of our network and online banking portals to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches; (xxxi) the possibility of increased compliance costs as a result of increased regulatory oversight, including oversight of companies in which Pinnacle Financial has significant investments, and the development of additional banking products for our corporate and consumer clients; (xxxii) the risks associated with our being a minority investor in Bankers Healthcare Group, LLC, including the risk that the owners of a majority of the equity interests in Bankers Healthcare Group decide to sell the company;
and (xxiii) changes in state and federal legislation, regulations or policies applicable to banks and other financial

service providers, including regulatory or legislative developments arising out of current unsettled conditions in the economy, including implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. A more detailed description of these and other risks is contained herein and in Pinnacle Financial's most recent annual report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2015 and Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 8, 2015. Many of such factors are beyond Pinnacle Financial's ability to control or predict, and readers are cautioned not to put undue reliance on such forward-looking statements. Pinnacle Financial disclaims any obligation to update or revise any forward-looking statements contained in this report, whether as a result of new information, future events or otherwise.

Item 1. Part I. Financial Information

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

	June 30, 2015	December 31, 2014
ASSETS		
Cash and noninterest-bearing due from banks	$66,487,191	$48,741,692
Interest-bearing due from banks	201,761,829	134,176,054
Federal funds sold and other	4,698,433	4,989,764
Cash and cash equivalents	272,947,453	187,907,510
Securities available-for-sale, at fair value	806,221,152	732,054,785
Securities held-to-maturity (fair value of $33,830,072 and $38,788,870 at June 30, 2015 and December 31, 2014, respectively)	33,914,863	38,675,527
Mortgage loans held-for-sale	31,542,696	14,038,914
Loans	4,830,353,621	4,590,026,505
Less allowance for loan losses	(65,572,050)	(67,358,639)
Loans, net	4,764,781,571	4,522,667,866
Premises and equipment, net	73,633,237	71,576,016
Equity method investment	82,892,986	-
Accrued interest receivable	17,125,955	16,988,407
Goodwill	243,290,816	243,529,010
Core deposits and other intangible assets	2,438,245	2,893,072
Other real estate owned	6,792,503	11,186,414
Other assets	180,962,299	176,730,276
Total assets	$6,516,543,776	$6,018,247,797
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$1,473,086,196	$1,321,053,083
Interest-bearing	1,071,433,689	1,005,450,690
Savings and money market accounts	2,031,801,876	2,024,957,383
Time	417,289,165	431,143,756
Total deposits	4,993,610,926	4,782,604,912
Securities sold under agreements to repurchase	61,548,547	93,994,730
Federal Home Loan Bank advances	445,345,050	195,476,384
Subordinated debt and other borrowings	133,908,292	96,158,292
Accrued interest payable	637,036	631,682
Other liabilities	40,103,864	46,688,416
Total liabilities	5,675,153,715	5,215,554,416
Stockholders' equity:		
Preferred stock, no par value, 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value $1.00; 90,000,000 shares authorized; 35,977,987 and 35,732,483 shares issued and outstanding		

at June 30, 2015 and December 31, 2014, respectively	35,977,987	35,732,483
Additional paid-in capital	567,945,383	561,431,449
Retained earnings	237,243,866	201,371,081
Accumulated other comprehensive income, net of taxes	222,825	4,158,368
Total stockholders' equity	841,390,061	802,693,381
Total liabilities and stockholders' equity	$6,516,543,776	$6,018,247,797

See accompanying notes to consolidated financial statements (unaudited).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest income:				
Loans, including fees	$50,325,643	$45,089,706	$99,792,349	$88,785,364
Securities:				
Taxable	3,460,243	3,628,264	6,904,842	7,348,543
Tax-exempt	1,400,479	1,563,612	2,883,786	3,161,409
Federal funds sold and other	316,286	282,822	600,264	559,880
Total interest income	55,502,651	50,564,404	110,181,241	99,855,196
Interest expense:				
Deposits	2,592,476	2,481,762	5,023,218	5,077,002
Securities sold under agreements to repurchase	29,371	31,329	60,288	61,844
Federal Home Loan Bank advances and other borrowings	1,050,119	824,912	1,998,671	1,582,134
Total interest expense	3,671,966	3,338,003	7,082,177	6,720,980
Net interest income	51,830,685	47,226,401	103,099,064	93,134,216
Provision for loan losses	1,186,116	254,348	1,501,207	741,986
Net interest income after provision for loan losses	50,644,569	46,972,053	101,597,857	92,392,230
Noninterest income:				
Service charges on deposit accounts	3,075,655	2,965,644	5,988,204	5,756,612
Investment services	2,399,054	2,164,410	4,658,494	4,292,244
Insurance sales commissions	1,105,783	1,144,871	2,618,401	2,529,792
Gain on mortgage loans sold, net	1,652,111	1,668,604	3,593,365	2,903,475
Investment gains on sales, net	556,014	-	562,017	-
Trust fees	1,230,415	1,071,848	2,542,400	2,217,599
Income from equity method investment	4,266,154	-	7,467,456	-
Other noninterest income	5,733,592	3,582,067	11,081,743	7,630,084
Total noninterest income	20,018,778	12,597,444	38,512,080	25,329,806
Noninterest expense:				
Salaries and employee benefits	23,774,558	21,772,469	47,305,418	43,522,429
Equipment and occupancy	5,877,971	5,822,662	11,924,194	11,531,692
Other real estate (benefit) expense, net	(114,567)	226,006	280,721	877,158
Marketing and other business development	1,186,165	1,064,990	2,145,915	1,973,891
Postage and supplies	731,219	544,194	1,380,470	1,104,808
Amortization of intangibles	227,413	237,676	454,827	475,351
Merger related expense	59,053	-	59,053	-
Other noninterest expense	5,005,513	4,233,931	10,027,749	8,062,459
Total noninterest expense	36,747,325	33,901,928	73,578,347	67,547,788
Income before income taxes	33,916,022	25,667,569	66,531,590	50,174,248
Income tax expense	11,252,191	8,497,589	22,025,048	16,637,146
Net income	$22,663,831	$17,169,980	$44,506,542	$33,537,102
Per share information:				
Basic net income per common share	$0.65	$0.49	$1.27	$0.97
Diluted net income per common share	$0.64	$0.49	$1.25	$0.96

Weighted average shares outstanding:				
Basic	35,128,856	34,697,888	35,085,271	34,650,377
Diluted	35,554,683	35,081,702	35,477,098	35,024,859

See accompanying notes to consolidated financial statements (unaudited).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$22,663,831	$17,169,980	$44,506,542	$33,537,102
Other comprehensive income (loss), net of tax:				
Change in fair value on available-for-sale securities, net of tax	(4,952,934)	5,104,719	(3,009,581)	10,050,631
Change in fair value of cash flow hedges, net of tax	(31,598)	(1,535,212)	(584,425)	(2,829,518)
Net gain on sale of investment securities reclassified from other comprehensive income into net income, net of tax	(337,890)	-	(341,537)	-
Total other comprehensive income (loss), net of tax	(5,322,422)	3,569,507	(3,935,543)	7,221,113
Total comprehensive income	$17,341,409	$20,739,487	$40,570,999	$40,758,215

See accompanying notes to consolidated financial statements (unaudited).

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

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comp. Income	Total Stockholders'
	Shares	Amount	Capital	Earnings	(Loss), net	Equity
Balances, December 31, 2013	35,221,941	$35,221,941	$550,212,135	$142,298,199	$(4,024,614)	$723,707,661
Exercise of employee common stock options and related tax benefits	175,442	175,442	3,851,187	-	-	4,026,629
Common dividends paid	-	-	-	(5,679,659)	-	(5,679,659)
Issuance of restricted common shares, net of forfeitures	259,197	259,197	(259,197)	-	-	-
Restricted shares withheld for taxes and related tax benefit	(55,085)	(55,085)	(957,259)	-	-	(1,012,344)
Compensation expense for restricted shares	-	-	2,581,483	-	-	2,581,483
Net income	-	-	-	33,537,102	-	33,537,102
Other comprehensive loss	-	-	-	-	7,221,113	7,221,113
Balances, June 30, 2014	35,601,495	$35,601,495	$555,428,349	$170,155,642	$3,196,499	$764,381,985
Balances, December 31, 2014	35,732,483	$35,732,483	$561,431,449	$201,371,081	$4,158,368	$802,693,381
Exercise of employee common stock options and related tax benefits	152,544	152,544	4,144,437	-	-	4,296,981
Common dividends paid	-	-	-	(8,633,757)		(8,633,757)
Issuance of restricted common shares, net of forfeitures	150,259	150,259	(150,259)	-	-	-
Restricted shares withheld for taxes and related tax benefit	(57,299)	(57,299)	(841,791)	-	-	(899,090)
Compensation expense for restricted shares	-	-	3,361,547	-	-	3,361,547
Net income	-	-	-	44,506,542	-	44,506,542
Other comprehensive income	-	-	-	-	(3,935,543)	(3,935,543)
Balances, June 30, 2015	35,977,987	$35,977,987	$567,945,383	$237,243,866	$222,825	$841,390,061

See accompanying notes to consolidated financial statements (unaudited).

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

	Six Months Ended June 30, 2015	2014
Operating activities:		
Net income	$44,506,542	$33,537,102
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization/accretion of premium/discount on securities	2,436,636	2,154,065
Depreciation and amortization	4,318,556	4,598,989
Provision for loan losses	1,501,207	741,986
Gain on mortgage loans sold, net	(3,593,365)	(2,903,475)
Investment gains on sales, net	(562,017)	-
Stock-based compensation expense	3,361,547	2,581,483
Deferred tax expense (benefit)	613,022	(136,855)
(Gains) losses on dispositions of other real estate and other investments	241,254	141,913
(Gains) losses from equity method investment	(7,467,456)	-
Excess tax benefit from stock compensation	(1,398,876)	(1,166,463)
Mortgage loans held for sale:		
Loans originated	(222,301,417)	(153,548,739)
Loans sold	208,391,000	144,711,000
Increase (decrease) in other assets	5,668,214	(1,504,523)
Decrease in other liabilities	(6,601,764)	(4,207,922)
Net cash provided by operating activities	29,113,083	24,998,561
Investing activities:		
Activities in securities available-for-sale:		
Purchases	(180,352,200)	(96,556,556)
Sales	33,290,733	1,273,528
Maturities, prepayments and calls	65,886,600	59,975,601
Activities in securities held-to-maturity:		
Purchases	(1,550,995)	-
Maturities, prepayments and calls	5,935,000	864,028
Increase in loans, net	(247,698,663)	(171,994,156)
Purchases of software, premises and equipment	(6,455,257)	(3,265,513)
Proceeds from sales of software, premises and equipment	654,069	-
Purchase of equity method investment	(75,425,530)	-
Increase in other investments	(720,972)	(178,118)
Net cash used in investing activities	(406,437,215)	(209,881,186)
Financing activities:		
Net increase in deposits	211,006,014	118,040,619
Net decrease in securities sold under agreements to repurchase	(32,446,182)	(8,192,656)
Advances from Federal Home Loan Bank:		
Issuances	1,740,000,000	410,000,000
Payments and maturities	(1,490,108,767)	(330,047,151)
Increase (decrease) in other borrowings	37,750,000	(1,250,000)

Exercise of common stock options and stock appreciation rights, net of repurchase of restricted shares	3,397,891	3,014,285
Excess tax benefit from stock compensation	1,398,876	1,166,463
Common stock dividends paid	(8,633,757)	(5,679,659)
Net cash provided by financing activities	462,364,075	187,051,901
Net increase in cash and cash equivalents	85,039,943	2,169,276
Cash and cash equivalents, beginning of period	187,907,510	208,938,737
Cash and cash equivalents, end of period	$272,947,453	$211,108,013

See accompanying notes to consolidated financial statements (unaudited).

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

Note 1. Summary of Significant Accounting Policies

Nature of Business — Pinnacle Financial Partners, Inc. (Pinnacle Financial) is a bank holding company whose primary business is conducted by its wholly-owned subsidiary, Pinnacle Bank. Pinnacle Bank is a commercial bank headquartered in Nashville, Tennessee. Pinnacle Bank provides a full range of banking services in its primary market areas of the Nashville-Davidson-Murfreesboro-Franklin, Tennessee and Knoxville, Tennessee Metropolitan Statistical Areas and following the merger with CapitalMark Bank and Trust (CapitalMark), as of July 31, 2015, the Chattanooga, Tennessee-Georgia Metropolitan Statistical Area.

Basis of Presentation — The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles (U.S. GAAP). All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods covered by the report have been included. The accompanying unaudited consolidated financial statements should be read in conjunction with the Pinnacle Financial consolidated financial statements and related notes appearing in the 2014 Annual Report previously filed on Form 10-K.

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

Use of Estimates — The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, any potential impairment of intangible assets, including goodwill and the valuation of deferred tax assets, other real estate owned, and our investment portfolio, including other-than-temporary impairment. These financial statements should be read in conjunction with Pinnacle Financial's Annual Report on Form 10-K for the year ended December 31, 2014. There have been no significant changes to Pinnacle Financial's significant accounting policies as disclosed in Pinnacle Financial's Annual Report on Form 10-K for the year ended December 31, 2014.

Cash Flow Information — Supplemental cash flow information addressing certain cash and noncash transactions for each of the six months ended June 30, 2015 and 2014 was as follows:

	For the six months ended June 30,	
	2015	2014
Cash Transactions:		
Interest paid	$7,099,390	$6,886,261
Income taxes paid, net	17,847,500	14,100,000
Noncash Transactions:		
Loans charged-off to the allowance for loan losses	6,098,606	3,268,626
Loans foreclosed upon and transferred to other real estate owned	252,896	1,672,459

Loans foreclosed upon and transferred to other repossessed assets	3,478,159	347,800

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

The following is a summary of the basic and diluted net income per share calculations for the three and six months ended June 30, 2015 and 2014:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Basic net income per share calculation:				
Numerator - Net income	$22,663,831	$17,169,980	$44,506,542	$33,537,102
Denominator - Average common shares outstanding	35,128,856	34,697,888	35,085,271	34,650,377
Basic net income per share	$0.65	$0.49	$1.27	$0.97
Diluted net income per share calculation:				
Numerator – Net income	$22,663,831	$17,169,980	$44,506,542	$33,537,102
Denominator - Average common shares outstanding	35,128,856	34,697,888	35,085,271	34,650,377
Dilutive shares contingently issuable	425,827	383,814	391,827	374,482
Average diluted common shares outstanding	35,554,683	35,081,702	35,477,098	35,024,859
Diluted net income per share	$0.64	$0.49	$1.25	$0.96

Subsequent Events — ASC 855, Subsequent Events, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. Pinnacle Financial evaluated all events or transactions that occurred after June 30, 2015 through the date of the issued financial statements.

Subordinated Debt Issuance

On July 30, 2015, Pinnacle Bank issued $60.0 million in aggregate principal amount of Fixed–to-Floating Rate Subordinated Notes due 2025 (the "Notes") in a private placement transaction to accredited institutional investors. The maturity date of the notes is July 30, 2025, although Pinnacle Bank may redeem some or all of the Notes beginning on the interest payment date of July 30, 2020 and on any interest payment date thereafter at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to the date of redemption, subject to the prior approval of the Federal Deposit Insurance Corporation (the "FDIC").

From the date of the issuance through July 29, 2020, the Notes will bear interest at the rate of 4.875% per year and will be payable semi-annually in arrears on January 30 and July 30 of each year, beginning on January 30, 2016. From July 30, 2020, the Notes will bear interest at a rate per annum equal to the three-month LIBOR rate plus 3.128%, payable quarterly in arrears on each January 30, April 30, July 30, and October 30, beginning on July 30, 2020, through the maturity date or the early redemption date of the Notes.

The sale of the Notes yielded net proceeds of approximately $59.1 million after deducting the placement agents' fees and estimated expenses payable by Pinnacle Bank. Pinnacle Bank used the net proceeds from the offering, together with available cash, to pay the cash portion of the merger consideration payable to the shareholders of CapitalMark and intends to use the remaining net proceeds, together with available cash, to pay the cash portion of the merger consideration payable to Magna shareholders in connection with the mergers, to pay the amounts necessary to redeem the preferred shares that each of CapitalMark and Magna have issued to the United States Department of the Treasury in connection with their participation in the Treasury's Small Business Lending Fund and for general corporate purposes.

CapitalMark Bank & Trust

On April 7, 2015, Pinnacle Financial and Pinnacle Bank entered into a definitive agreement with CapitalMark to acquire CapitalMark via merger. On July 31, 2015, CapitalMark merged with Pinnacle Bank.

Under the terms of the merger agreement, CapitalMark shareholders could either convert each of their outstanding shares of common stock into 0.50 shares of Pinnacle Financial's common stock plus cash in lieu of any fractional shares, or into a cash payment equal to the product of 0.50 multiplied by the average trading price for Pinnacle Financial's common stock on the Nasdaq Global Select Market for a 10-day period prior to the closing of the transaction or into a mix of Pinnacle Financial common stock and cash. Pursuant to the merger agreement, notwithstanding the elections, 90% of the outstanding shares of CapitalMark common stock were required to be converted into Pinnacle Financial common stock and 10% of those shares were required to be converted into cash.

Additionally, CapitalMark's outstanding stock options converted into approximately 858,000 Pinnacle options and were fully vested upon consummation of the merger pursuant to CapitalMark's stock option plan.

As of July 31, 2015, the transaction was valued at $195.2 million and was comprised of stock consideration of approximately 3.3 million shares of Pinnacle Financial's common stock and $19.7 million in cash. Additionally, Pinnacle Bank redeemed the $18.2 million in preferred stock issued by CapitalMark in connection with its participation in the U.S. Treasury's Small Business Lending Fund program on July 31, 2015. CapitalMark shareholders own approximately 9.7% of Pinnacle Financial's outstanding shares of common stock on a diluted basis.

Magna Bank

On April 29, 2015, Pinnacle Financial and Pinnacle Bank entered into a definitive agreement with Magna to acquire Magna via merger. The proposed merger of Magna with and into Pinnacle Bank has been approved by Magna's shareholders and is expected to close during the third quarter of 2015.

Under the terms of the merger agreement, Magna shareholders will have the right to elect to convert their outstanding shares of common stock into 0.3369 shares of Pinnacle's common stock plus cash in lieu of any fractional shares, or into a cash payment equal to $14.32 per Magna share, or into a combination of 0.3369 shares of Pinnacle's common stock and $14.32 in cash at a ratio of 75% stock and 25% cash. Because the maximum amount of stock and cash that Pinnacle will pay in the merger is capped at 75% and 25%, respectively, of Magna's outstanding shares, those Magna shareholders that elect either all stock or all cash may automatically have their elections adjusted so that, in the aggregate, 75% of all Magna shares outstanding will be converted into shares of Pinnacle's common stock and 25% will be converted into cash.

Magna's 328,350 stock options will be fully vested upon consummation of the merger pursuant to Magna's stock option plan. At closing, Magna's outstanding unexercised stock options will be settled in cash for the difference between the option's exercise price and $14.32. At closing, Magna shareholders will own approximately 3.3% of Pinnacle Financial's outstanding common stock, assuming all of Magna's options are cashed out.

The transaction is currently valued at $83.4 million based on Pinnacle's closing price on April 28, 2015, related to the issuance of approximately 1.325 million shares of Pinnacle Financial's common stock and $20.7 million in cash, in each case assuming none of the options are exercised prior to closing. Additionally, Pinnacle Bank plans to redeem at closing the $18.35 million in Series C preferred stock issued by Magna in connection with its participation in the U.S. Treasury's Small Business Lending Fund program.

Note. 2 Equity method investment

On February 1, 2015, Pinnacle Bank acquired a 30% interest in Bankers Healthcare Group, LLC (BHG) for $75 million. Pinnacle Bank accounts for this investment pursuant to the equity method for unconsolidated subsidiaries and recognizes its interest in BHG's profits and losses in noninterest income with corresponding adjustments to the BHG investment account. Currently, the equity method of accounting requires that this investment is reported as a net investment on the financial statements, but that embedded goodwill and intangibles should be identified, tested for impairment and amortized over their useful life within the equity method investment line of the balance sheet. Amortization expense associated with BHG's customer list and data processing capabilities is recorded in income from equity method investments. Pinnacle has not yet completed the purchase accounting for this equity method investment, on the acquisition date, Pinnacle Bank estimated its investment included embedded goodwill of $40.8 million and $14.4 million of technology, trade name and customer relationship intangibles. However, the FASB has issued an exposure draft, "Proposed Accounting Standards Update 2015-280 - Investments - Equity Method and Joint Ventures (Topic 323)", that may result in equity method investments moving from the currently prescribed method of accounting to an impairment based model. Pinnacle Bank recorded earnings of $7.7 million, net of approximately $1.0 million in intangible amortization expense for the first six months of 2015. Earnings from BHG are included in Pinnacle Bank and Pinnacle Financial's consolidated tax return.

A summary of BHG's financial position and results of operations as of and for the six months ended June 30, 2015 were as follows (in thousands):

	June 30, 2015
Assets	$207,669
Liabilities	122,867
Member's equity	84,802
Total liabilities and equity	$207,669

	For the six months ended June 30, 2015
Revenues	$61,480
Net income, pre-tax	$36,762

In connection with the BHG acquisition, Pinnacle Bank borrowed $40 million pursuant to a loan agreement which requires Pinnacle Financial and Pinnacle Bank to maintain certain financial covenants including minimum capital ratios, liquidity requirements and other non-financial covenants. The loan has a 5-year maturity and bears interest at approximately 2.95% per annum currently. The balance of the loans was $39.0 million at June 30, 2015.

While Pinnacle Bank's investment in BHG is expected to have a modest impact on Pinnacle Financial's balance sheet volumes throughout the remainder of 2015, this investment primarily serves to increase and diversify Pinnacle Financial's fee income. Additionally, Pinnacle Financial intends to seek to leverage BHG's marketing platform to distribute it's financial services through BHG's national distribution channel.

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Note 3. Securities

The amortized cost and fair value of securities available-for-sale and held-to-maturity at June 30, 2015 and December 31, 2014 are summarized as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2015:				
Securities available-for-sale:				
U.S. Treasury securities	$-	$ -	$ -	$-
U.S. government agency securities	125,010	17	3,753	121,274
Mortgage-backed agency securities	462,472	8,463	3,503	467,432
State and municipal securities	125,112	6,535	320	131,327
Asset-backed securities	75,333	81	152	75,262
Corporate notes and other	10,035	892	1	10,926
	$797,962	$ 15,988	$ 7,729	$806,221
Securities held-to-maturity:				
State and municipal securities	$33,915	$ 139	$ 224	$33,830
	$33,915	$ 139	$ 224	$33,830
December 31, 2014:				
Securities available-for-sale:				
U.S. Treasury securities	$-	$ -	$ -	$-
U.S. government agency securities	117,098	12	3,654	113,456
Mortgage-backed agency securities	447,757	10,322	2,240	455,839
State and municipal securities	130,545	8,213	180	138,578
Asset-backed securities	13,089	14	85	13,018
Corporate notes and other	10,196	969	2	11,163
	$718,685	$ 19,530	6,161	$732,054
Securities held-to-maturity:				
State and municipal securities	$38,676	$ 205	$ 92	$38,789
	$38,676	$ 205	$ 92	$38,789

At June 30, 2015, approximately $669.7 million of securities within Pinnacle Financial's investment portfolio were either pledged to secure public funds and other deposits or securities sold under agreements to repurchase.

The amortized cost and fair value of debt securities as of June 30, 2015 by contractual maturity are shown below. Actual maturities may differ from contractual maturities in the case of mortgage- and asset-backed securities since the mortgages and assets underlying the securities may be called or prepaid with or without penalty. Therefore, these securities are not included in the maturity categories in the following summary (in thousands):

	Available-for-sale		Held-to-maturity	
June 30, 2015:	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$9,697	$9,734	$1,710	$1,712
Due in one year to five years	34,300	35,689	10,374	10,408
Due in five years to ten years	149,167	151,803	12,514	12,469
Due after ten years	66,993	66,301	9,317	9,241
Mortgage-backed securities	462,472	467,432	-	-
Asset-backed securities	75,333	75,262	-	-
	$797,962	$806,221	$33,915	$33,830

At June 30, 2015 and December 31, 2014, the following investments had unrealized losses. The table below classifies these investments according to the term of the unrealized losses of less than twelve months or twelve months or longer (in thousands):

	Investments with an Unrealized Loss of less than 12 months		Investments with an Unrealized Loss of 12 months or longer		Total Investments with an Unrealized Loss	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At June 30, 2015:						
U.S. Treasury securities	$-	$ -	$-	$ -	$-	$ -
U.S. government agency securities	47,012	1,227	65,369	2,526	112,381	3,753
Mortgage-backed securities	143,785	1,114	104,901	2,389	248,506	3,503
State and municipal securities	22,639	263	5,076	281	27,715	544
Asset-backed securities	35,271	141	8,361	11	43,632	152
Corporate notes	250	1	151	-	401	1
Total temporarily-impaired securities	$248,957	$ 2,746	$183,858	$ 5,207	$432,635	$ 7,953
At December 31, 2014:						
U.S. Treasury securities	$-	$ -	$-	$ -	$-	$ -
U.S. government agency securities	3,593	10	103,658	3,644	107,251	3,654
Mortgage-backed securities	91,410	405	102,892	1,835	194,302	2,240
State and municipal securities	3,561	15	16,502	257	20,063	272
Asset-backed securities	-	-	9,289	85	9,289	85
Corporate notes	950	1	154	1	1,104	2
Total temporarily-impaired securities	$99,514	$ 431	$232,495	$ 5,822	$332,009	$ 6,253

The applicable dates for determining when securities are in an unrealized loss position are June 30, 2015 and December 31, 2014. As such, it is possible that a security had a market value that exceeded its amortized cost on other days during the past twelve-month periods ended June 30, 2015 and December 31, 2014, but is in the "Investments with an Unrealized Loss of less than 12 months" category above.

As shown in the tables on the previous page, at June 30, 2015, Pinnacle Financial had approximately $8.0 million in unrealized losses on $432.8 million of securities. The unrealized losses associated with these investment securities are driven by changes in interest rates, and the unrealized loss is recorded as a component of equity. These securities will continue to be monitored as a part of our ongoing impairment analysis, but are expected to perform even if the rating agencies reduce the credit rating of the bond issuers. Management evaluates the financial performance of the issuers on a quarterly basis to determine if it is probable that the issuers can make all contractual principal and interest payments. If a shortfall in future cash flows is identified, a credit loss will be deemed to have occurred and will be recognized as a charge to earnings and a new cost basis for the security will be established.

Because Pinnacle Financial currently does not intend to sell those securities that have an unrealized loss at June 30, 2015, and it is not more-likely-than-not that Pinnacle Financial will be required to sell the securities before recovery of their amortized cost bases, which may be maturity, Pinnacle Financial does not consider these securities to be other-than-temporarily impaired at June 30, 2015.

Periodically, available-for-sale securities may be sold or the composition of the portfolio realigned to improve yields, quality or marketability, or to implement changes in investment or asset/liability strategy, including maintaining collateral requirements and raising funds for liquidity purposes. Additionally, if an available-for-sale security loses its investment grade or tax-exempt status, the underlying credit support is terminated or collection otherwise becomes uncertain based on factors known to management, Pinnacle Financial will consider selling the security, but will review each security on a case-by-case basis as these factors become known. Consistent with investment policy, available-for-sale securities of $33.3 million were sold and a gain of $562,000 realized during the six months ended June 30, 2015.

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

Note 4. Loans and Allowance for Loan Losses

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

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

- Commercial real-estate mortgage loans. Commercial real-estate mortgage loans are categorized as such based on investor exposures where repayment is largely dependent upon the operation, refinance, or sale of the underlying real estate. Commercial real-estate mortgage also includes owner occupied commercial real estate which shares a similar risk profile to our commercial and industrial products.
- Consumer real-estate mortgage loans. Consumer real-estate mortgage consists primarily of loans secured by 1-4 residential properties including home equity lines of credit.
- Construction and land development loans. Construction and land development loans include loans where the repayment is dependent on the successful operation of the related real estate project. Construction and land development loans include 1-4 family construction projects and commercial construction endeavors such as warehouses, apartments, office and retail space and land acquisition and development.
- Commercial and industrial loans. Commercial and industrial loans include loans to business enterprises issued for commercial, industrial and/or other professional purposes.
-

Consumer and other loans. Consumer and other loans include all loans issued to individuals not included in the consumer real-estate mortgage classification. Examples of consumer and other loans are automobile loans, credit cards and loans to finance education, among others.

Commercial loans receive risk ratings assigned by a financial advisor and approved by a senior credit officer subject to validation by Pinnacle Financial's independent loan review department. Risk ratings are categorized as pass, special mention, substandard, substandard-nonaccrual or doubtful-nonaccrual. Pinnacle Financial believes that its categories follow those used by Pinnacle Bank's primary regulators. At June 30, 2015, approximately 74% of our loan portfolio was analyzed as a commercial loan type with a specifically assigned risk rating in the allowance for loan loss assessment. Consumer loans and small business loans are generally not assigned an individual risk rating but are evaluated as either accrual or nonaccrual based on the performance of the individual loans. However, certain consumer real-estate mortgage loans and certain consumer and other loans receive a specific risk rating due to the loan proceeds being used for commercial purposes even though the collateral may be of a consumer loan nature.

Risk ratings are subject to continual review by a financial advisor and a senior credit officer. At least annually, our credit procedures require that every risk rated loan of $500,000 or more be subject to a formal credit risk review process by the assigned financial advisor. Each loan's risk rating is also subject to review by our independent loan review department, which reviews a substantial portion of our risk rated portfolio annually. Loans subjected to our independent loan review department's annual review includes loans in targeted higher-risk portfolio segments such as certain commercial and industrial loans, land loans and/or loan types in certain geographies.

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

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

The following table outlines the amount of each loan classification categorized into each risk rating category as of June 30, 2015 and December 31, 2014 (in thousands):

	Commercial real estate - mortgage	Consumer real estate - mortgage	Construction and land development	Commercial and industrial	Consumer and other	Total
June 30, 2015						
Accruing loans						
Pass	$1,627,250	$720,144	$ 362,804	$1,717,492	$223,178	$4,650,868
Special Mention	16,027	2,209	2,086	42,976	-	63,298
Substandard [(1)]	22,906	9,923	3,232	53,875	-	89,936
Total	1,666,183	732,276	368,122	1,814,343	223,178	4,804,102
Impaired loans						
Nonaccrual loans						
Substandard-nonaccrual	5,546	4,513	3,454	1,064	2,973	17,550
Doubtful-nonaccrual	-	-	-	-	-	-
Total nonaccrual loans	5,546	4,513	3,454	1,064	2,973	17,550

Troubled debt restructurings(2)						
Pass	-	415	428	587	229	1,659
Special Mention	-	442	-	-	-	442
Substandard	-	2,995	-	3,606	-	6,601
Total troubled debt restructurings	-	3,852	428	4,193	229	8,702
Total impaired loans	5,546	8,365	3,882	5,257	3,202	26,252
Total loans	$ 1,671,729	$ 740,641	$ 372,004	$ 1,819,600	$ 226,380	$ 4,830,354

	Commercial real estate - mortgage	Consumer real estate - mortgage	Construction and land development	Commercial and industrial	Consumer and other	Total
December 31, 2014						
Accruing loans						
Pass	$1,510,718	$697,607	$ 295,645	$1,704,910	$216,155	$4,425,035
Special Mention	7,353	2,536	15,215	31,733	-	56,837
Substandard (1)	21,707	12,631	5,997	42,704	-	83,039
Total	1,539,778	712,774	316,857	1,779,347	216,155	4,564,911
Impaired loans						
Nonaccrual loans						
Substandard-nonaccrual	4,313	4,458	5,173	1,609	1,152	16,705
Doubtful-nonaccrual	-	-	-	-	-	-
Total nonaccrual loans	4,313	4,458	5,173	1,609	1,152	16,705
Troubled debt restructurings(2)						
Pass	-	62	436	575	75	1,148
Special Mention	-	811	-	-	201	1,012
Substandard	-	3,053	-	3,198	-	6,251
Total troubled debt restructurings	-	3,926	436	3,773	276	8,411
Total impaired loans	4,313	8,384	5,609	5,382	1,428	25,116
Total loans	$1,544,091	$721,158	$ 322,466	$1,784,729	$217,583	$4,590,027

(1) Potential problem loans represent those loans with a well-defined weakness and where information about possible credit problems of borrowers has caused management to have doubts about the borrower's ability to comply with present repayment terms. This definition is believed to be substantially consistent with the standards established by Pinnacle Bank's primary regulators for loans classified as substandard, excluding the impact of nonaccrual loans and troubled debt restructurings. Potential problem loans, which are not included in nonaccrual loans, amounted to approximately $89.9 million at June 30, 2015, compared to $83.0 million at December 31, 2014.

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

At June 30, 2015 and December 31, 2014, all loans classified as nonaccrual were deemed to be impaired. The principal balances of these nonaccrual loans amounted to $17.6 million and $16.7 million at June 30, 2015 and December 31, 2014, respectively, and are included in the tables above. For the six months ended June 30, 2015, the average balance of nonaccrual loans was $17.3 million compared to $17.5 million for the year ended December 31, 2014. At the date such loans were placed on nonaccrual status, Pinnacle Financial reversed all previously accrued interest income against current year earnings. Pinnacle Financial's policy is that once a loan is placed on nonaccrual status each subsequent payment is reviewed on a case-by-case basis to determine if the payment should be applied to interest or principal pursuant to regulatory guidelines. Pinnacle Financial recognized approximately $183,000 in interest income from cash payments received on nonaccrual loans during the six months ended June 30, 2015 and $256,000 interest income from cash payments received on nonaccrual loans during the year ended December 31, 2014. Had these remaining nonaccrual loans been on accruing status, interest income would have been higher by $398,000 for the six months ended June 30, 2015 and by $416,000 for the six months ended June 30, 2014. A nonaccrual loan may be returned to accruing status once the loan has been brought current as to the principal and interest and collection is reasonably assured or the loan has been "well secured" through other techniques.

The following table details the recorded investment, unpaid principal balance and related allowance and average recorded investment of our nonaccrual loans at June 30, 2015 and December 31, 2014 by loan classification and the amount of interest income recognized on a cash basis throughout the fiscal year-to-date period then ended, respectively, on these loans that remain on the balance sheets (in thousands):

	At June 30, 2015			For the six months ended June 30, 2015	
	Recorded investment	Unpaid principal balance	Related allowance(1)	Average recorded investment	Interest income recognized
Collateral dependent nonaccrual loans:					
Commercial real estate – mortgage	$3,753	$3,807	$ -	$3,148	$ 53
Consumer real estate – mortgage	606	671	-	617	-
Construction and land development	3,160	3,160	-	3,277	130
Commercial and industrial	909	1,176	-	932	-
Consumer and other	-	-	-	-	-
Total	$8,428	$8,814	$ -	$7,974	$ 183
Cash flow dependent nonaccrual loans:					
Commercial real estate – mortgage	$1,793	$2,047	$ 70	$1,824	$ -
Consumer real estate – mortgage	3,907	4,223	545	4,037	-
Construction and land development	294	390	46	299	-
Commercial and industrial	155	168	24	204	-
Consumer and other	2,973	3,092	462	3,003	-
Total	$9,122	$9,920	$ 1,147	$9,367	$ -
Total nonaccrual loans	$17,550	$18,734	$ 1,147	$17,341	$ 183

	At December 31, 2014			For the year ended December 31, 2014	
	Recorded investment	Unpaid principal balance	Related allowance(1)	Average recorded investment	Interest income recognized
Collateral dependent nonaccrual loans:					
Commercial real estate – mortgage	$2,422	$2,641	$ -	$2,624	$ -
Consumer real estate – mortgage	1,472	1,901	-	1,552	-
Construction and land development	4,810	4,810	-	5,016	256
Commercial and industrial	1,325	1,804	-	1,561	-
Consumer and other	-	-	-	-	-
Total	$10,029	$11,156	$ -	$10,753	$ 256
Cash flow dependent nonaccrual loans:					
Commercial real estate – mortgage	$1,891	$2,107	$ 108	$1,958	$ -
Consumer real estate – mortgage	2,986	3,205	654	3,080	-
Construction and land development	363	406	79	384	-
Commercial and industrial	284	294	62	316	-
Consumer and other	1,152	1,184	252	972	-
Total	$6,676	$7,196	$ 1,155	$6,710	$ -
Total nonaccrual loans	$16,705	$18,352	$ 1,155	$17,463	$ 256

(1)

Collateral dependent loans are typically charged-off to their net realizable value and no specific allowance is carried related to those loans.

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

At June 30, 2015 and December 31, 2014, there were $8.7 million and $8.4 million, respectively, of troubled debt restructurings that were performing as of their restructure date and which were accruing interest. These troubled debt restructurings are considered impaired loans pursuant to U.S. GAAP. Troubled commercial loans are restructured by specialists within our Special Assets Group, and all restructurings are approved by committees and credit officers separate and apart from the normal loan approval process. These specialists are charged with reducing Pinnacle Financial's overall risk and exposure to loss in the event of a restructuring by obtaining some or all of the following: improved documentation, additional guaranties, increase in curtailments, reduction in collateral release terms, additional collateral or other similar strategies.

The following table outlines the amount of each loan category where troubled debt restructuring were made during the three and six months ended June 30, 2015 and 2014 (dollars in thousands):

	Three months ended June 30,			Six months ended June 30,		
2015	Number of contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, net of related allowance	Number of contracts	Pre Modification Outstanding Recorded Investment	Post Modification Outstanding Recorded Investment, net of related allowance
Commercial real estate – mortgage	-	$ -	$ -	-	$ -	$ -
Consumer real estate – mortgage	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-
Commercial and industrial	-	-	-	1	434	337
Consumer and other	-	-	-	-	-	-
	-	$ -	$ -	1	$ 434	$ 337

2014