

PINNACLE FINANCIAL PARTNERS INC
Form 10-Q
November 02, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(mark one)

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

For the quarterly period ended September 30, 2018
or

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required to submit such files).

Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller reporting company

(do not check if you are a smaller reporting company)

Emerging growth company

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.

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 October 31, 2018 there were 77,888,834 shares of common stock, \$1.00 par value per share, issued and outstanding.

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Pinnacle Financial Partners, Inc.
Report on Form 10-Q
September 30, 2018

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FORWARD-LOOKING STATEMENTS

All statements, other than statements of historical fact, included in this report, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words "expect," "aim," "anticipate," "intend," "may", "should," "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) the ability to grow and retain low-cost core deposits and retain large, uninsured deposits; (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 (including those resulting from the Tax Cuts and Jobs Act) 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) a merger or acquisition; (xi) risks of expansion into new geographic or product markets; (xii) any matter that would cause Pinnacle Financial to conclude that there was impairment of any asset, including goodwill or intangible assets; (xiii) reduced ability to attract additional financial advisors (or failure of such advisors to cause their clients to switch to Pinnacle Bank as quickly as anticipated or at all), to retain financial advisors (including as a result of the competitive environment resulting from the Tax Cuts and Jobs Act) or otherwise to attract customers from other financial institutions; (xiv) further deterioration in the valuation of other real estate owned and increased expenses associated therewith; (xv) 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 exceed percentage levels of total capital in guidelines recommended by its regulators; (xvi) risks associated with litigation, including the applicability of insurance coverage; (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 or other operational expenses as a result of increased regulatory oversight, including 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. Additional factors which could affect the forward looking statements can be found in Pinnacle Financial's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K filed with the SEC and available on the SEC's website at <http://www.sec.gov>. Pinnacle Financial disclaims any obligation to update or revise any forward-looking statements contained in this report, which speak only as of the date hereof, whether as a result of new information, future events

or otherwise.

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Item 1. Part I. Financial Information

PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands)

	September 30, 2018	December 31, 2017
ASSETS		
Cash and noninterest-bearing due from banks	\$ 145,638	\$ 176,553
Interest-bearing due from banks	394,129	496,911
Federal funds sold and other	11,313	106,132
Cash and cash equivalents	551,080	779,596
Securities available-for-sale, at fair value	3,004,582	2,515,283
Securities held-to-maturity (fair value of \$192.5 million and \$20.8 million at Sept. 30, 2018 and Dec. 31, 2017, respectively)	194,997	20,762
Consumer loans held-for-sale	47,417	103,729
Commercial loans held-for-sale	11,402	25,456
Loans	17,464,009	15,633,116
Less allowance for loan losses	(79,985)	(67,240)
Loans, net	17,384,024	15,565,876
Premises and equipment, net	268,387	266,014
Equity method investment	221,302	221,667
Accrued interest receivable	73,366	57,440
Goodwill	1,807,121	1,808,002
Core deposits and other intangible assets	48,737	56,710
Other real estate owned	17,467	27,831
Other assets	927,663	757,334
Total assets	\$24,557,545	\$22,205,700
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$4,476,925	\$4,381,386
Interest-bearing	3,195,657	2,987,291
Savings and money market accounts	7,262,968	6,548,964
Time	3,471,965	2,534,061
Total deposits	18,407,515	16,451,702
Securities sold under agreements to repurchase	130,217	135,262
Federal Home Loan Bank advances	1,520,603	1,319,909
Subordinated debt and other borrowings	465,487	465,505
Accrued interest payable	20,944	10,480
Other liabilities	115,738	114,890
Total liabilities	20,660,504	18,497,748
Stockholders' equity:		
Preferred stock, no par value; 10.0 million shares authorized; no shares issued and outstanding	—	—
	77,867	77,740

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Common stock, par value \$1.00; 180.0 million shares authorized at Sept. 30, 2018 and 90.0 million shares authorized at Dec. 31, 2017; 77.9 million and 77.7 million shares issued and outstanding at Sept. 30, 2018 and Dec. 31, 2017, respectively

Additional paid-in capital	3,123,323	3,115,304
Retained earnings	750,363	519,144
Accumulated other comprehensive loss, net of taxes	(54,512) (4,236
Total stockholders' equity	3,897,041	3,707,952
Total liabilities and stockholders' equity	\$24,557,545	\$22,205,700

See accompanying notes to consolidated financial statements (unaudited).

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CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(dollars in thousands, except per share data)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Interest income:				
Loans, including fees	\$221,901	\$183,570	\$621,873	\$389,093
Securities:				
Taxable	12,209	12,067	35,179	26,765
Tax-exempt	10,074	4,620	25,709	8,533
Federal funds sold and other	3,926	1,639	7,861	3,376
Total interest income	248,110	201,896	690,622	427,767
Interest expense:				
Deposits	44,172	19,104	100,920	