

MORGAN STANLEY INDIA INVESTMENT FUND, INC.
Form N-CSRS
September 08, 2015

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

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-08238

Morgan Stanley India Investment Fund, Inc.
(Exact name of registrant as specified in charter)

522 Fifth Avenue, New York, New York
(Address of principal executive offices)

10036
(Zip code)

John H. Gernon

522 Fifth Avenue, New York, New York 10036
(Name and address of agent for service)

Registrant's telephone number, including area code: 212-296-0289

Date of fiscal year December 31,
end:

Date of reporting period: June 30, 2015

Item 1 - Report to Shareholders

Morgan Stanley India Investment Fund, Inc.

Directors

M.J. Marcel Vivian

Descroizilles

Joseph J. Kearns

Ravindranath Santosh

Kumar Hazareesing

Mamode Izam Nathadkhan

Fergus Reid

Officers

John H. Gernon

*President and Principal
Executive Officer*

Joseph C. Benedetti

Vice President

Francis J. Smith

*Treasurer and Principal
Financial Officer*

Stefanie V. Chang Yu

Chief Compliance Officer

Mary E. Mullin

Secretary

Adviser and Administrator

Morgan Stanley Investment Management Inc.

522 Fifth Avenue

New York, New York 10036

Sub-Adviser

Morgan Stanley Investment Management Company

23 Church Street

16-01 Capital Square, Singapore 049481

Custodian

State Street Bank and Trust Company

One Lincoln Street

Boston, Massachusetts 02111

Stockholder Servicing Agent

Computershare Trust Company, N.A.

211 Quality Circle, Suite 210

College Station, Texas 77845

Legal Counsel

Dechert LLP

1095 Avenue of the Americas

New York, New York 10036

Counsel to the Independent Directors

Kramer Levin Naftalis & Frankel LLP

1177 Avenue of the Americas

New York, New York 10036

Independent Registered Public Accounting Firm

Ernst & Young LLP

200 Clarendon Street

Boston, Massachusetts 02116

For additional Fund information, including the Fund's net asset value per share and information regarding the investments comprising the Fund's portfolio, please call toll free 1 (800) 231-2608 or visit our website at www.morganstanley.com/im. All investments involve risks, including the possible loss of principal.

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INVESTMENT MANAGEMENT

Morgan Stanley
Investment Management Inc.
Adviser

Morgan Stanley
India Investment
Fund, Inc.
NYSE: IIF

Semi-Annual Report

June 30, 2015

Morgan Stanley India Investment Fund, Inc.

June 30, 2015

Table of Contents

Letter to Stockholders	3
Investment Advisory Agreement Approval	5
Portfolio of Investments	8
Statement of Assets and Liabilities	10
Statement of Operations	11
Statements of Changes in Net Assets	12
Financial Highlights	13
Notes to Financial Statements	14
Portfolio Management	23
Investment Policy	24
Dividend Reinvestment and Cash Purchase Plan	27
U.S. Privacy Policy	28

Morgan Stanley India Investment Fund, Inc.

June 30, 2015

Letter to Stockholders (unaudited)

Performance

For the six months ended June 30, 2015, the Morgan Stanley India Investment Fund, Inc. (the "Fund") had total returns of 6.81%, based on net asset value, and 2.16% based on market value per share (including reinvestment of distributions), compared to its benchmark, the MSCI India Index (the "Index")*, which returned 1.59%. On June 30, 2015, the closing price of the Fund's shares on the New York Stock Exchange was \$27.46, representing a 12.1% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

Factors Affecting Performance

- After a strong performance in 2014, the absolute returns for Indian equities in the first half of 2015 have been muted. We think this is typical market behavior. In the first year after a better-than-expected outcome in the elections, the equity market rallied on hope. As we complete the first anniversary of the new government's term, the market is waiting for action from the new government. On this count, the signals have been mixed. Clearly the economy is taking longer to turnaround than initially anticipated. We have been characterizing this economy as a "gradual and uneven" pick-up in growth.
- On the macro front, the economy has come a long way from the vulnerability shocks in 2013. The current account deficit (CAD) has narrowed to 1.4% of GDP in the fiscal year ended March 2015.ⁱ There are signs of a structural improvement in net foreign direct investment (FDI) to about 1.6% of GDP.ⁱⁱ Improving CAD and rising FDI together vastly reduce the vulnerability of the economy to global shocks, in our view. We therefore feel that while India may not be totally immune to volatility arising from U.S. Federal Reserve rate hikes or other global events, the degree of impact arising from these events will likely be more muted compared to 2013.
- The Reserve Bank of India (RBI) has cut rates three times this year. But its recent commentary after the monetary policy meeting was interpreted as a signal that policy makers would pause to see the impact of below-normal predicted rainfall on food inflation before enacting further easing.
- From a sector positioning perspective, the Fund's overweight exposure to the industrials sector and underweight bias to the utilities sector contributed to performance. On the other hand, underweight exposures to the health care, consumer staples and energy sectors detracted from performance.
- At the stock level, active exposures to materials, health care, consumer staples and energy stocks bolstered returns. There were no material stock selection detractors over this period.

Morgan Stanley India Investment Fund, Inc.

June 30, 2015

Letter to Stockholders (unaudited) (cont'd)

Management Strategies

- We believe the economic indicators are improving at the margin, but the recovery will likely continue to be gradual and uneven.
- As of the close of the period, the Fund had overweight exposures to industrials and financials, and underweight exposures in energy, consumer staples and information technology.

Sincerely,

John H. Gernon
President and Principal Executive Officer July 2015

*The MSCI India Index is a free-float adjusted market capitalization weighted index that is designed to measure the performance of the large and mid cap segments of the Indian market. The performance of the Index is calculated in U.S. dollars and assumes reinvestment of net dividends. It is not possible to invest directly in an index.

ⁱ Bloomberg L.P.

ⁱⁱ CEIC Data

Morgan Stanley India Investment Fund, Inc.

June 30, 2015

Investment Advisory Agreement Approval (unaudited)

Nature, Extent and Quality of Services

The Board reviewed and considered the nature and extent of the investment advisory services provided by the Adviser (as defined herein) under the advisory agreement, including portfolio management, investment research and equity and fixed income securities trading. The Board reviewed similar information and factors regarding the Sub-Adviser (as defined herein), to the extent applicable. The Board also reviewed and considered the nature and extent of the non-advisory, administrative services provided by the Fund's Adviser under the administration agreement, including accounting, operations, clerical, bookkeeping, compliance, business management and planning, legal services and the provision of supplies, office space and utilities at the Adviser's expense. The Board also considered the Adviser's investment in personnel and infrastructure that benefits the Fund. (The Adviser and Sub-Adviser together are referred to as the "Adviser" and the advisory, sub-advisory and administration agreements together are referred to as the "Management Agreement.") The Board also considered that the Adviser serves a variety of other investment advisory clients and has experience overseeing service providers. The Board also compared the nature of the services provided by the Adviser with similar services provided by non-affiliated advisers as reported to the Board by Lipper, Inc. ("Lipper").

The Board reviewed and considered the qualifications of the portfolio managers, the senior administrative managers and other key personnel of the Adviser who provide the administrative and advisory services to the Fund. The Board determined that the Adviser's portfolio managers and key personnel are well qualified by education and/or training and experience to perform the services in an efficient and professional manner. The Board concluded that the nature and extent of the advisory and administrative services provided were necessary and appropriate for the conduct of the business and investment activities of the Fund and supported its decision to approve the Management Agreement.

Performance, Fees and Expenses of the Fund

The Board reviewed the performance, fees and expenses of the Fund compared to its peers, as determined by Lipper, and to appropriate benchmarks where applicable. The Board discussed with the Adviser the performance goals and the actual results achieved in managing the Fund. When considering a fund's performance, the Board and the Adviser place emphasis on trends and longer-term returns (focusing on one-year, three-year and five-year performance, as of December 31, 2014, or since inception, as applicable). When a fund underperforms its benchmark and/or its peer group average, the Board and the Adviser discuss the causes of such underperformance and, where necessary, they discuss specific changes to investment strategy or investment personnel. The Board noted that the Fund's performance was better than its peer group average for the one-, three- and five-year periods. The Board also noted that the Fund outperformed its benchmark index for the one-, three- and five-year periods. The Board discussed with the Adviser the level of the advisory and administration fees (together, the "management fee") for this Fund relative to comparable funds and/or other accounts advised by the Adviser and/or compared to its peers as determined by Lipper. In addition to the management fee, the Board also reviewed the Fund's total expense ratio. The Board noted that the Fund's management fee and total expense ratio were higher but close to its peer group average. After discussion, the Board concluded that the Fund's (i) performance was competitive with its peer group average; and (ii) management fee and total expense ratio were competitive with its peer group averages.

Morgan Stanley India Investment Fund, Inc.

June 30, 2015

Investment Advisory Agreement Approval (unaudited) (cont'd)

Economies of Scale

The Board considered the size and growth prospects of the Fund and how that relates to the Fund's total expense ratio and particularly the Fund's management fee rate, which does not include breakpoints. In conjunction with its review of the Adviser's profitability, the Board discussed with the Adviser how a change in assets can affect the efficiency or effectiveness of managing the Fund and whether the management fee level is appropriate relative to current and projected asset levels and/or whether the management fee structure reflects economies of scale as asset levels change. The Board considered that, with respect to closed-end funds, the assets are not likely to grow with new sales or grow significantly as a result of capital appreciation. The Board concluded that economies of scale for the Fund were not a factor that needed to be considered at the present time.

Profitability of the Adviser and Affiliates

The Board considered information concerning the costs incurred and profits realized by the Adviser and its affiliates during the last year from their relationship with the Fund and during the last two years from their relationship with the Morgan Stanley Fund Complex and reviewed with the Adviser the cost allocation methodology used to determine the profitability of the Adviser and affiliates. The Board has determined that its review of the analysis of the Adviser's expenses and profitability supports its decision to approve the Management Agreement.

Other Benefits of the Relationship

The Board considered other direct and indirect benefits to the Adviser and/or its affiliates derived from their relationship with the Fund and other funds advised by the Adviser. These benefits may include, among other things, fees for trading, distribution and/or shareholder servicing and for transaction processing and reporting platforms used by securities lending agents, and research received by the Adviser generated from commission dollars spent on funds' portfolio trading. The Board reviewed with the Adviser these arrangements and the reasonableness of the Adviser's costs relative to the services performed. The Board has determined that its review of the other benefits received by the Adviser or its affiliates supports its decision to approve the Management Agreement.

Resources of the Adviser and Historical Relationship Between the Fund and the Adviser

The Board considered whether the Adviser is financially sound and has the resources necessary to perform its obligations under the Management Agreement. The Board also reviewed and considered the historical relationship between the Fund and the Adviser, including the organizational structure of the Adviser, the policies and procedures formulated and adopted by the Adviser for managing the Fund's operations and the Board's confidence in the competence and integrity of the senior managers and key personnel of the Adviser. The Board concluded that the Adviser has the financial resources necessary to fulfill its obligations under the Management Agreement and that it is beneficial for the Fund to continue its relationship with the Adviser.

Other Factors and Current Trends

The Board considered the controls and procedures adopted and implemented by the Adviser and monitored by the Fund's Chief Compliance Officer and concluded that the conduct of business by the Adviser indicates a good faith effort on its part to adhere to high ethical standards in the conduct of the Fund's business.

Morgan Stanley India Investment Fund, Inc.

June 30, 2015

Investment Advisory Agreement Approval (unaudited) (cont'd)

General Conclusion

After considering and weighing all of the above factors, with various written materials and verbal information presented by the Adviser, the Board concluded that it would be in the best interest of the Fund and its shareholders to approve renewal of the Management Agreement for another year. In reaching this conclusion the Board did not give particular weight to any single piece of information or factor referenced above. The Board considered these factors and information over the course of the year and in numerous meetings, some of which were in executive session with only the independent Board members and their counsel present. It is possible that individual Board members may have weighed these factors, and the information presented, differently in reaching their individual decisions to approve the Management Agreement.

Morgan Stanley India Investment Fund, Inc.**June 30, 2015**

Portfolio of Investments (unaudited)

	Shares	Value (000)
COMMON STOCKS (96.5%)		
Auto Components (3.5%)		
Motherson Sumi Systems Ltd.	2,010,314	\$ 16,375
Automobiles (3.8%)		
Maruti Suzuki India Ltd.	180,653	11,885
Tata Motors Ltd., Class A	1,452,605	5,947
		17,832
Banks (20.1%)		
Axis Bank Ltd. (a)	2,191,000	19,232
HDFC Bank Ltd. (a)	914,842	17,827
ICICI Bank Ltd.	2,794,275	13,515
IndusInd Bank Ltd. (a)	1,656,849	23,471
Jammu & Kashmir Bank Ltd. (The)	3,643,507	5,756
State Bank of India	3,750,024	15,473
		95,274
Capital Markets (1.4%)		
Motilal Oswal Financial Services Ltd.	1,362,724	6,423
Chemicals (1.3%)		
Asian Paints Ltd.	536,311	6,362
Construction & Engineering (5.7%)		
Ashoka Buildcon Ltd.	2,638,621	7,336
Larsen & Toubro Ltd.	701,591	19,642
		26,978
Construction Materials (4.3%)		
Ramco Cements Ltd. (The)	1,100,579	5,818
Shree Cement Ltd.	80,981	14,422
		20,240
Consumer Finance (5.7%)		
Cholamandalam Investment and Finance Co., Ltd.	489,064	4,806
Shriram Transport Finance Co., Ltd.	1,065,940	14,286
SKS Microfinance Ltd. (a)	1,063,682	7,796
		26,888
Electrical Equipment (0.9%)		
Inox Wind Ltd. (a)	605,385	4,020
Electronic Equipment, Instruments & Components (1.8%)		
Redington India Ltd.	5,687,892	8,624
		Value (000)
Information Technology Services (12.4%)		
	Shares	
	286,686	\$ 17,514

Cognizant Technology Solutions
Corp., Class A (a)

HCL Technologies Ltd.	951,891	13,748
Infosys Ltd.	934,724	14,449
Infosys Technologies Ltd. (a)(b)(c)	25,600	198
Tata Consultancy Services Ltd.	326,269	13,070
		58,979

Machinery (10.0%)

Ashok Leyland Ltd.	7,798,132	8,884
Cummins India Ltd.	355,460	5,005
Eicher Motors Ltd.	109,517	33,685
		47,574

Oil, Gas & Consumable Fuels (4.6%)

Bharat Petroleum Corp., Ltd.	1,127,827	15,574
Reliance Industries Ltd.	399,688	6,277
		21,851

Personal Products (3.7%)

Emami Ltd.	451,002	8,214
Marico Ltd.	1,325,189	9,357
		17,571

Pharmaceuticals (6.7%)

Glenmark Pharmaceuticals Ltd.	1,105,937	17,265
Lupin Ltd.	489,770	14,506
		31,771

Real Estate Management & Development (1.0%)

Prestige Estates Projects Ltd.	1,262,631	4,901
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Software (0.5%)

KPIT Technologies Ltd.	1,636,801	2,394
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Tobacco (1.7%)

ITC Ltd.	1,628,665	8,060
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Transportation Infrastructure (6.4%)

Gateway Distriparks Ltd.	3,689,673	19,865
Gujarat Pipavav Port Ltd. (a)	3,062,788	10,480
		30,345

Water Utilities (1.0%)

VA Tech Wabag Ltd.	411,872	4,789
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TOTAL COMMON STOCKS (Cost

\$276,619)		457,251
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The accompanying notes are an integral part of the financial statements.

Morgan Stanley India Investment Fund, Inc.**June 30, 2015**

Portfolio of Investments (unaudited) (cont'd)

	Shares	Value (000)
SHORT-TERM INVESTMENT (0.7%)		
Investment Company (0.7%)		
Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class (See Note E) (Cost \$3,111)	3,110,977	\$ 3,111
TOTAL INVESTMENTS (97.2%)		460,362
(Cost \$279,730)		
Other Assets in Excess of Liabilities (2.8%)		13,463
Net Assets (100.0%)		\$473,825

(a) Non-income producing security.

(b) Security has been deemed illiquid at June 30, 2015.

(c) At June 30, 2015, the Fund held a fair valued security valued at approximately \$198,000, representing less than 0.04% of net assets. This security has been fair valued as determined in good faith under procedures established by and under the general supervision of the Fund's Directors.

Portfolio Composition

Classification	Percentage of Total Investments
Other*	31.0%
Banks	20.7
Information Technology Services	12.8
Machinery	10.3
Pharmaceuticals	6.9
Transportation Infrastructure	6.6
Construction & Engineering	5.9
Consumer Finance	5.8
Total Investments	100.0%

* Industries and/or investment types representing less than 5% of total investments.

The accompanying notes are an integral part of the financial statements.

Morgan Stanley India Investment Fund, Inc.**June 30, 2015**

Financial Statements

	June 30, 2015 (unaudited) (000)
Statement of Assets and Liabilities	
Assets:	
Investments in Securities of Unaffiliated Issuers, at Value (Cost \$276,619)	\$ 457,251
Investment in Security of Affiliated Issuer, at Value (Cost \$3,111)	3,111
Total Investments in Securities, at Value (Cost \$279,730)	460,362
Foreign Currency, at Value (Cost \$10,530)	10,546
Cash	40
Receivable for Investments Sold	3,650
Dividends Receivable	512
Receivable from Affiliate	@
Other Assets	33
Total Assets	475,143
Liabilities:	
Payable for Advisory Fees	420
Payable for Investments Purchased	277
Repurchase of Shares	210
Payable for Directors' Fees and Expenses	166
Payable for Professional Fees	93
Payable for Custodian Fees	88
Payable for Administration Fees	11
Payable for Stockholder Servicing Agent Fees	1
Other Liabilities	52
Total Liabilities	1,318
Net Assets	
Applicable to 15,173,468 Issued and Outstanding \$0.01 Par Value Shares (100,000,000 Shares Authorized)	\$ 473,825
Net Asset Value Per Share	\$ 31.23
Net Assets Consist of:	
Common Stock	\$ 152
Paid-in-Capital	316,860
Accumulated Net Investment Loss	(2,811)
Accumulated Net Realized Loss	(20,556)
Unrealized Appreciation (Depreciation) on:	
Investments	180,223
Foreign Currency Translations	(43)
Net Assets	\$ 473,825

@ Amount is less than \$500.

The accompanying notes are an integral part of the financial statements.

Morgan Stanley India Investment Fund, Inc.**June 30, 2015**

Financial Statements (cont'd)

	Six Months Ended June 30, 2015 (unaudited) (000)
Statement of Operations	
Investment Income:	
Dividends from Securities of Unaffiliated Issuers	\$ 1,561
Dividends from Security of Affiliated Issuer (Note E)	1
Total Investment Income	1,562
Expenses:	
Advisory Fees (Note B)	2,587
Custodian Fees (Note D)	226
Administration Fees (Note C)	209
Professional Fees	137
Directors' Fees and Expenses	107
Stockholder Reporting Expenses	30
Stockholder Servicing Agent Fees	4
Other Expenses	54
Total Expenses	3,354
Waiver of Administration Fees (Note C)	(119)
Rebate from Morgan Stanley Affiliate (Note E)	(1)
Net Expenses	3,234
Net Investment Loss	(1,672)
Realized Gain (Loss):	
Investments Sold	21,520
Foreign Currency Transactions	(540)
Net Realized Gain	20,980
Change in Unrealized Appreciation (Depreciation):	
Investments	10,061
Foreign Currency Translations	466
Net Change in Unrealized Appreciation (Depreciation)	10,527
Net Realized Gain and Change in Unrealized Appreciation (Depreciation)	31,507
Net Increase in Net Assets Resulting from Operations	\$ 29,835

The accompanying notes are an integral part of the financial statements.

Morgan Stanley India Investment Fund, Inc.**June 30, 2015**

Financial Statements (cont'd)

	Six Months Ended June 30, 2015 (unaudited) (000)	Year Ended December 31, 2014 (000)
Statements of Changes in Net Assets		
Increase (Decrease) in Net Assets:		
Operations:		
Net Investment Loss	\$ (1,672)	\$ (1,210)
Net Realized Gain	20,980	27,857
Net Change in Unrealized Appreciation (Depreciation)	10,527	114,295
Net Increase in Net Assets Resulting from Operations	29,835	140,942
Capital Share Transactions:		
Repurchase of Shares (222,137 and 593,605 shares)	(5,995)	(12,096)
Net Decrease in Net Assets Resulting from Capital Share Transactions	(5,995)	(12,096)
Total Increase	23,840	128,846
Net Assets:		
Beginning of Period	449,985	321,139
End of Period (Including Accumulated Net Investment Loss of \$(2,811) and \$(1,139))	\$ 473,825	\$ 449,985

The accompanying notes are an integral part of the financial statements.

Morgan Stanley India Investment Fund, Inc.**June 30, 2015**

Financial Highlights

Selected Per Share Data and Ratios

	Six Months Ended June 30, 2015 (unaudited)		2014	Year Ended December 31,				2010
	2013	2012	2011	2010				
Net Asset Value, Beginning of Period	\$ 29.23	\$ 20.08	\$ 20.79	\$ 15.67	\$ 27.46	\$ 23.74		
Net Investment Loss†	(0.11)	(0.08)	(0.07)	(0.01)	(0.06)	(0.03)		
Net Realized and Unrealized Gain (Loss)	2.06	9.13	(0.78)	5.04	(10.55)	6.22		
Total from Investment Operations	1.95	9.05	(0.85)	5.03	(10.61)	6.19		
Distributions from and/or in excess of:								
Net Realized Gain					(1.18)	(2.47)		
Anti-Dilutive Effect of Share Repurchase Program	0.05	0.10	0.11	0.04				
Anti-Dilutive Effect of Tender Offer			0.03	0.05				
Net Asset Value, End	\$ 31.23	\$ 29.23	\$ 20.08	\$ 20.79	\$ 15.67	\$ 27.46		

of Period Per Share Market Value, End of Period	\$ 27.46	\$ 26.88	\$ 17.48	\$ 18.53	\$ 14.01	\$ 25.65
TOTAL INVESTMENT RETURN:						
Market Value	2.16%#	53.78%	(5.67)%	32.26%	(42.46)%	24.79%
Net Asset Value(1)	6.81%#	45.57%	(3.42)%	32.67%	(39.88)%	27.23%
RATIOS, SUPPLEMENTAL DATA:						
Net Assets, End of Period (Thousands)	\$173,825	\$449,985	\$321,139	\$387,069	\$349,966	\$613,141
Ratio of Expenses to Average Net Assets(2)	1.37%+*	1.44%+	1.43%+	1.40%+	1.38%+	1.33%+
Ratio of Net Investment Loss to Average Net Assets(2)	(0.71)%+*	(0.31)%+	(0.37)%+	(0.07)%+	(0.28)%+	(0.12)%+
Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets	0.00%\$*	0.00%\$	0.00%\$	0.00%\$	0.00%\$	0.00%\$
Portfolio Turnover Rate	31%#	16%	46%	69%	45%	66%

(2)
**Supplemental
 Information**
on
the
Ratios
to
Average
Net
Assets:

Ratios Before Expenses Waived by Administrator:

Ratio of Expenses to Average Net Assets	1.42%*	1.49%	1.48%	1.45%	1.43%	1.37%+
Ratio of Net Investment Loss to Average Net Assets	(0.76)%*	(0.36)%	(0.42)%	(0.12)%	(0.33)%	(0.16)%+

(1) Total investment return based on net asset value per share reflects the effects of changes in net asset value on the performance of the Fund during each period, and assumes dividends and distributions, if any, were reinvested. This percentage is not an indication of the performance of a stockholder's investment in the Fund based on market value due to differences between the market price of the stock and the net asset value per share of the Fund.

† Per share amount is based on average shares outstanding.

+ The Ratios of Expenses and Net Investment Loss reflect the rebate of certain Fund expenses in connection with the investments in Morgan Stanley affiliates during the period. The effect of the rebate on the ratios is disclosed in the above table as "Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets."

§ Amount is less than 0.005%.

Not annualized.

* Annualized.

The accompanying notes are an integral part of the financial statements.

Morgan Stanley India Investment Fund, Inc.

June 30, 2015

Notes to Financial Statements (unaudited)

The Morgan Stanley India Investment Fund, Inc. (the "Fund") was incorporated in Maryland on December 22, 1993, and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the "Act"). The Fund applies investment company accounting and reporting guidance. The adviser, Morgan Stanley Investment Management Inc. (the "Adviser"), and sub-adviser, Morgan Stanley Investment Management Company (the "Sub-Adviser"), seek long-term capital appreciation through investments primarily in equity securities of Indian Issuers.

A. Significant Accounting Policies: The following significant accounting policies are in conformity with U.S. generally accepted accounting principles ("GAAP"). Such policies are consistently followed by the Fund in the preparation of its financial statements. GAAP may require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from those estimates.

1. Security Valuation: (1) An equity portfolio security listed or traded on an exchange is valued at its latest reported sales price (or at the exchange official closing price if such exchange reports an official closing price), if there were no sales on a given day, the security is valued at the mean between the last reported bid and asked prices; (2) all other equity portfolio securities for which over-the-counter ("OTC") market quotations are readily available are valued at its latest reported sales price. In cases where a security is traded on more than one exchange, the security is valued on the exchange designated as the primary market; (3) when market quotations are not readily available, including circumstances under which the Adviser or Sub-Adviser determines that the closing price, last sale price or the mean between the last reported bid and asked prices are not reflective of a security's market value, portfolio securities are valued at their fair value as determined in good faith under procedures established by and under the

general supervision of the Fund's Board of Directors (the "Directors"). Occasionally, developments affecting the closing prices of securities and other assets may occur between the times at which valuations of such securities are determined (that is, close of the foreign market on which the securities trade) and the close of business of the New York Stock Exchange ("NYSE"). If developments occur during such periods that are expected to materially affect the value of such securities, such valuations may be adjusted to reflect the estimated fair value of such securities as of the close of the NYSE, as determined in good faith by the Directors or by the Adviser using a pricing service and/or procedures approved by the Directors; (4) quotations of foreign portfolio securities, other assets and liabilities and forward contracts stated in foreign currency are translated into U.S. dollar equivalents at the prevailing market rates prior to the close of the NYSE; (5) investments in mutual funds, including the Morgan Stanley Institutional Liquidity Funds, are valued at the net asset value ("NAV") as of the close of each business day; and (6) short-term debt securities with remaining maturities of 60 days or less at the time of purchase may be valued at amortized cost, unless the Adviser determines such valuation does not reflect the securities' market value, in which case these securities will be valued at their fair market value determined by the Adviser.

The Directors have responsibility for determining in good faith the fair value of the investments, and the Directors may appoint others, such as the Fund's Adviser or a valuation committee, to assist the Directors in determining fair value and to make the actual calculations pursuant to the fair valuation methodologies previously approved by the Directors. Under procedures approved by the Directors, the Fund's Adviser has formed a Valuation Committee whose members are approved by the Directors. The Valuation Committee provides administration and oversight of the Fund's valuation policies and procedures,

Morgan Stanley India Investment Fund, Inc.

June 30, 2015

Notes to Financial Statements (unaudited) (cont'd)

which are reviewed at least annually by the Directors. These procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

The Fund has procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available. Under these procedures, the Valuation Committee convenes on a regular and ad hoc basis to review such securities and considers a number of factors, including valuation methodologies and significant unobservable valuation inputs, when arriving at fair value. The Valuation Committee may employ a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The Valuation Committee employs various methods for calibrating these valuation approaches including a regular review of valuation methodologies, key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

2. Fair Value Measurement: Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ ("ASC") 820, "Fair Value Measurement" ("ASC 820"), defines fair value as the value that the Fund would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal

market the most advantageous market for the investment or liability. ASC 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in valuing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in valuing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Fund's investments. The inputs are summarized in the three broad levels listed below.

- Level 1 unadjusted quoted prices in active markets for identical investments
- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 significant unobservable inputs including the Fund's own assumptions in determining the fair value of investments. Factors considered in making this determination may include, but are not limited to, information obtained by contacting the issuer, analysts, or the appropriate stock exchange (for exchange-traded securities), analysis of the issuer's financial statements or other available documents and, if necessary, available information concerning other securities in similar circumstances

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities and the determination of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each security.

Morgan Stanley India Investment Fund, Inc.**June 30, 2015**

Notes to Financial Statements (unaudited) (cont'd)

The following is a summary of the inputs used to value the Fund's investments as of June 30, 2015.

Investment Type	Level 1 Unadjusted quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
Assets:				
Common Stocks				
Auto				
Components	\$ 16,375	\$	\$	\$ 16,375
Automobiles	5,947	11,885		17,832
Banks	53,976	41,298		95,274
Capital				
Markets	6,423			6,423
Chemicals	6,362			6,362
Construction				
&				
Engineering	26,978			26,978
Construction				
Materials	20,240			20,240
Consumer				
Finance	26,888			26,888
Electrical				
Equipment	4,020			4,020
Electronic				
Equipment,				
Instruments				
&				
Components	8,624			8,624
Information				
Technology				
Services	58,781		198	58,979
Machinery	47,574			47,574
Oil, Gas &				
Consumable				
Fuels	21,851			21,851
Personal				
Products	17,571			17,571
Pharmaceuticals	31,771			31,771
Investment Type	Level 1 Unadjusted quoted	Level 2 Other significant	Level 3 Significant unobservable	Total (000)

	prices (000)	observable inputs (000)	inputs (000)	
Assets: (cont'd)				
Common Stocks (cont'd)				
Real Estate Management & Development	\$ 4,901	\$	\$	\$ 4,901
Software	2,394			2,394
Tobacco	8,060			8,060
Transportation Infrastructure	19,865	10,480		30,345
Water Utilities	4,789			4,789
Total Common Stocks	393,390	63,663	198	457,251
Short-Term Investment				
Investment Company	3,111			3,111
Total Assets	\$ 396,501	\$ 63,663	\$ 198	\$460,362

Transfers between investment levels may occur as the markets fluctuate and/or the availability of data used in an investment's valuation changes. The Fund recognizes transfers between the levels as of the end of the period. As of June 30, 2015, securities with a total value of approximately \$283,110,000 transferred from Level 2 to Level 1. Securities that were valued using other significant observable inputs at December 31, 2014 were valued using unadjusted quoted prices at June 30, 2015.

Morgan Stanley India Investment Fund, Inc.**June 30, 2015**

Notes to Financial Statements (unaudited) (cont'd)

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value.

	Common Stock (000)
Beginning Balance	\$ 199
Purchases	
Sales	
Amortization of discount	
Transfers in	
Transfers out	
Corporate actions	
Change in unrealized appreciation (depreciation)	(1)
Realized gains (losses)	
Ending Balance	\$ 198
Net change in unrealized appreciation (depreciation) from investments still held as of June 30, 2015	\$ (1)

The following table presents additional information about valuation techniques and inputs used for investments that are measured at fair value and categorized within Level 3 as of June 30, 2015. Various valuation techniques were used in the valuation of certain investments and weighted based on the level of significance.

	Fair Value at June 30, 2015 (000)	Valuation Technique	Unobservable Input	Range	Weighted Average	Impact to Valuation from an Increase in Input
Information Technology Services						
Common Stock	\$ 198	Market Transaction	Discount for Lack of Marketability		50.0%	Decrease

3. Foreign Currency Translation and Foreign Investments: The books and records of the Fund are maintained in U.S.

dollars. Amounts denominated in Indian rupees are translated into U.S. dollars as follows:

investments, other assets and liabilities at the prevailing rate of exchange on the valuation date;

investment transactions and investment income at the prevailing rates of exchange on the dates of such transactions.

Although the net assets of the Fund are presented at the foreign exchange rates and market values at the close of the period, the Fund does not isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities held at period end. Similarly, the Fund does not isolate the effect of changes in foreign exchange rates from the fluctuations arising from changes in the market prices of securities sold during the period. Accordingly, realized and unrealized foreign currency gains (losses) on investments in securities are included in the reported net realized and unrealized gains (losses) on investment transactions and balances.

Net realized gains (losses) on foreign currency transactions represent net foreign exchange gains (losses) from sales and maturities of foreign currency forward exchange contracts, disposition of foreign currency, currency gains (losses) realized between the trade and settlement dates on securities transactions, and the difference between the amount of investment income and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized currency gains (losses) from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a component of unrealized appreciation (depreciation) in investments and foreign currency translations in the Statement of Assets and Liabilities. The change in unrealized currency gains (losses)

Morgan Stanley India Investment Fund, Inc.

June 30, 2015

Notes to Financial Statements (unaudited) (cont'd)

on foreign currency translations for the period is reflected in the Statement of Operations.

A significant portion of the Fund's net assets consist of Indian securities which involve certain considerations and risks not typically associated with investments in the United States. In addition to its smaller size, less liquidity and greater volatility, the Indian securities market is less developed than the U.S. securities market and there is often substantially less publicly available information about Indian issuers than there is about U.S. issuers. Settlement mechanisms are also less developed and are accomplished, in certain cases, only through physical delivery, which may cause the Fund to experience delays or other difficulties in effecting transactions.

4. Indemnifications: The Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

Salaries and employee benefits:

Salaries

\$26,304 \$18,017 46.0% \$8,592 109.7%

Commissions

1,778 1,298 37.0% 714 81.8%

Other compensation, primarily incentives

2,602 4,209 (38.2%) 2,101 100.3%

Equity compensation expenses

2,100 1,475 42.4% 245 502.0%

Employee benefits and other

3,362 2,470 36.1% 1,479 67.0%

Total salaries and employee benefits

36,146 27,469 31.6% 13,131 109.2%

Equipment and occupancy

10,261 7,522 36.4% 3,767 99.7%

Other real estate

160

Marketing and business development

1,677 1,234 35.9% 698 76.8%

Postage and supplies

1,995 1,510 32.1% 618 144.3%

Amortization of core deposit intangible

2,144 1,783 20.2%

Other noninterest expense:

Accounting and auditing

1,263 742 70.2% 646 14.9%

Consultants

269 320 (15.9%) 123 160.2%

Legal, including borrower-related charges

437	310	41.0%	245	26.5%
OCC exam fees				
365	257	42.0%	182	41.2%
Directors fees				
233	257	(9.3%)	229	12.2%
Insurance, including FDIC assessments				
1,278	687	86.0%	322	113.4%
Charitable contributions				
334	186	79.6%	113	64.6%
Other professional fees				
158	73	116.4%	4	1,725.0%
Other noninterest expense				
3,138	2,632	19.2%	954	175.9%
Total other noninterest expense				
7,475	5,470	36.7%	2,818	94.1%
Merger related expense				
622	1,636	(62.0%)		
Total noninterest expense				
\$60,480	\$46,624	29.7%	\$21,032	121.7%

Expenses have generally increased between the above periods due to our mergers with Mid-America and Cavalry, personnel additions occurring throughout each period, the continued development of our branch network and other expenses which increase in relation to our growth rate. We anticipate continued increases in our expenses in the future for such items as additional personnel, the opening of additional branches, audit expenses and other expenses which tend to increase in relation to our growth. Additionally, we adopted SFAS No. 123(R) in 2006 which addresses the accounting for employee equity based incentives. Our compensation expense will increase in all future periods as a result of adopting this accounting pronouncement. In 2007 and 2006, approximately \$1.70 million and \$1.01 million, respectively, of compensation expense related to stock options is included in equity compensation expense. The remaining expense in each year is related to our shares of restricted stock that we have issued, but for which the forfeiture restrictions have not yet lapsed.

At December 31, 2007, we employed 702.0 full time equivalent employees compared to 404.0 at December 31, 2006 and 156.5 at the end of 2005. We intend to continue to add employees to our work force for the foreseeable future, which will cause our salary and employee benefits costs to increase in future periods.

We believe that variable pay 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, substantially all of our employees are eligible to participate in an annual cash incentive plan. Under the plan, the targeted level of incentive payments requires the Company to achieve a certain soundness threshold and a targeted earnings per share. To the extent that actual earnings per share are above or below targeted earnings per share, the aggregate incentive payments are increased or decreased. Additionally, our Human Resources and Compensation Committee (the Committee) of the Board of Directors has the ability to change the parameters of the variable cash award at any time prior to final distribution of the awards in order to take into account current events and circumstances and maximize the benefit of the awards to our firm and to the associates.

Table of Contents

Included in the salary and employee benefits amounts for the years ended December 31, 2007, 2006 and 2005, were \$2,373,000, \$4,104,000 and \$2,031,000, respectively, related to variable cash awards. This expense will fluctuate from year to year and quarter to quarter based on the estimation of achievement of performance targets and the increase in the number of associates eligible to receive the award. In 2007, we achieved our soundness threshold but did not achieve our targeted earnings per share which would have resulted in a minimum payout under the terms of the plan. The Committee approved the payment of cash incentive awards under the 2007 plan at a percentage that was generally higher than that otherwise payable under the terms of the plan, except for five of our executive officers (President and Chief Executive Officer, Chairman of the Board, Chief Administrative Officer, Chief Financial Officer and Chief Credit Officer). In accordance with their request, these executive officers did not receive any cash incentive payments under our 2007 cash incentive plan. As a result, the 2007 award was \$2.4 million or \$1.7 million less than the 2006 award.

For 2006, the actual award to be paid to qualifying associates equaled 120% of their targeted award as our actual earnings for 2006 exceed our 2006 earnings target under the 2006 plan adjusted for the impact of the merger related expenses incurred in connection with the Cavalry acquisition. For 2005, the actual award to be paid to associates equaled 100% of their targeted award. The incentive plan for 2008 is structured similarly to prior year plans in that the award is based on the achievement of soundness and earnings objectives. Because of the relative experience of our associates, our compensation costs are, and we expect will continue to be, higher on a per associate basis than other financial institutions of a similar asset size; however, we believe the experience and engagement of our associates also allows us to employ fewer people than most financial institutions our size.

In connection with our merger with Mid-America, all former associates of Mid-America that were displaced by our merger were granted a retention bonus award provided they worked through a predetermined date. Also, those associates that will continue as Pinnacle associates following the merger are eligible for a retention bonus should they continue their employment through December 31, 2008. We anticipate that this retention bonus award will approximate \$4.6 million and will be treated as a merger related expense in 2008. As a result of these associates agreeing to a retention bonus award, they will not be eligible to participate in any of our other cash or equity incentive award plans until 2009.

Equipment and occupancy expenses in 2007 were greater than the 2006 amount by \$2.7 million. This increase is primarily attributable to our market expansion to Knoxville, Tennessee, our new branch facility in the Donelson area of Nashville which opened in the first quarter of 2007, one month of expenses associated with the eleven Mid-America branches which were acquired on December 1, 2007 and a full year of expenses associated with the Cavalry merger which occurred in March of 2006. Equipment and occupancy expense for 2006 increased by 99.7% over 2005's expenses due primarily to the additional branches and equipment acquired with the Cavalry merger. In January of 2005, we opened an office in Franklin, Tennessee and, in the second quarter of 2005, we opened an office in Hendersonville, Tennessee. We have also increased our leased main office space periodically during the three years ended December 31, 2007. These additions contributed to the increase in our equipment and occupancy expenses throughout the three year period and will contribute to increases in expenses in the future as we construct new facilities, including new facilities currently planned in both the Nashville and Knoxville MSAs.

Marketing and other business development and postage and supplies expenses are higher in 2007 compared to 2006 and 2005 due to increases in the number of customers and prospective customers; increases in the number of customer contact personnel and the corresponding increases in customer entertainment; and other business development expenses. The addition of customers from the Mid-America and Cavalry mergers had a direct impact on these increased charges.

Included in noninterest expense for 2007 and 2006 is \$2.1 million and \$1.8 million, respectively, of amortization core deposit intangibles related to the Mid-America and Cavalry mergers. For Mid-America, this identified intangible is being amortized over ten years using an accelerated method which anticipates the life of the underlying deposits to which the intangible is attributable. For Cavalry, this identified intangible is being amortized over seven years using an accelerated method which anticipates the life of the underlying deposits to which the intangible is attributable. Amortization expense associated with these core deposit intangibles will approximate \$2.5 million to \$2.9 million per year for the next five years with lesser amounts for the remaining years.

Additionally, for the year ended December 31, 2007, we incurred \$622,000 of merger related expenses directly associated with the Mid-America merger. The merger related charges consisted of integration costs incurred in connection with the merger, including approximately \$4.6 million of retention bonuses payable to Mid-America associates. We do anticipate additional merger related expenses associated with the Mid-America transaction in 2008 as we fully integrate this acquisition. For the year ended December 31, 2006, we incurred \$1,636,000 of merger related expenses directly associated with the Cavalry merger. The merger related charges consisted of integration costs incurred in connection with the merger, including accelerated depreciation associated with software and other technology assets whose useful lives were shortened as a result of the Cavalry acquisition. We do not anticipate any additional merger related expenses associated with the Cavalry transaction in 2008.

Page 38

Table of Contents

Other noninterest expenses increased 36.7% in 2007 over 2006 and 94.1% in 2006 over 2005. Most of these increases are attributable to increased audit and accounting fees, legal fees and insurance expenses. Also contributing to the increases are incidental variable costs related to deposit gathering and lending. Examples include expenses related to ATM networks, correspondent bank service charges, check losses, appraisal expenses, closing attorney expenses and other items which have increased significantly as a result of the Cavalry merger.

Our efficiency ratio (ratio of noninterest expense to the sum of net interest income and noninterest income) was 61.6% in 2007 compared to 60.8% in 2006 and to 61.1% in 2005. The efficiency ratio measures the amount of expense that is incurred to generate a dollar of revenue.

Income Taxes. The effective income tax expense rate for the year ended December 31, 2007 was approximately 30.2%, compared to an effective income tax expense rate for years ended December 31, 2006 and 2005 of approximately 32.1% and 28.4%, respectively. The decrease in the effective rate for 2007 compared to 2006 was due to increased investment in bank qualified municipal securities and increased tax savings from our captive insurance subsidiary, PNFP Insurance, Inc. The increase in the effective tax rate between 2006 and 2005 was due primarily to the additional earnings being taxed at a higher rate as the various tax savings initiatives (e.g., municipal bond income) had a lesser impact in 2006 when compared to the previous periods. Additionally, the impact of our incentive stock options and their treatment pursuant to the adoption of SFAS No. 123(R) contributed to the increase in our effective rate in 2006, but also contributed to the decreased effective rate in 2007 as the tax treatment of incentive stock options will gradually lessen over time as these older incentive stock options fully vest and thus become less impactful on our effective tax rate. We now only award nonqualified stock options to our associates.

Financial Condition

Our consolidated balance sheet at December 31, 2007 reflects significant growth since December 31, 2005. Total assets grew from \$1.02 billion at December 31, 2005 to \$2.14 billion at December 31, 2006 to \$3.79 billion at December 31, 2007. Total deposits grew \$1.30 billion during 2007 and \$812 million during 2006. Excluding the deposits acquired with the Mid-America acquisition on November 30, 2007 of \$957 million, total deposits increased by \$346 million in 2007. Excluding the deposits acquired with the Cavalry acquisition on March 15, 2006 of \$584 million, total deposits increased by \$228 million in 2006. We invested substantially all of the additional deposits and other fundings in loans, which grew by \$1.25 billion (of which \$865 million was acquired with the Mid-America acquisition) during 2007 and \$850 million (of which \$551 million was acquired with the Cavalry acquisition) during 2006, and securities, which increased by \$176 million in 2007 (of which \$148 million was acquired with the Mid-America acquisition) and \$67 million in 2006 (of which \$39 million was acquired with the Cavalry acquisition).

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

		2007		2006		2005		2004		2003	
		Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial real estate	Mortgage	\$ 728,201	26.5%	\$ 284,302	19.0%	\$ 148,102	22.9%	\$ 117,123	24.8%	\$ 68,507	22.9%
Consumer real estate	Mortgage	562,721	20.5%	299,627	20.0%	169,953	26.2%	126,907	26.9%	76,042	26.9%
Construction and land development		517,399	18.8%	253,097	16.9%	67,667	10.5%	23,419	5.0%	11,288	5.0%
Commercial and industrial		838,161	30.5%	608,530	40.6%	239,129	36.9%	189,456	40.1%	129,882	40.1%
Consumer and other loans		103,159	3.7%	52,179	3.5%	23,173	3.6%	15,457	3.3%	11,285	3.3%
Total loans		\$ 2,749,641	100.0%	\$ 1,497,735	100.0%	\$ 648,024	100.0%	\$ 472,362	100.0%	\$ 297,004	100.0%

During the year ended December 31, 2007, our loan balances increased by \$1.25 billion, or 83.6%. Approximately \$865 million of this increase was due to the Mid-America acquisition while \$387 million was attributable to organic growth. Our organic growth rate equates to approximately 26% for the year ended December 31, 2007. The Mid-America loan portfolio had a significant impact on our loan portfolio volumes as well as mix of loans as Mid-America had a larger percentage of commercial real estate loans in comparison to our loans.

During the year ended December 31, 2006, and primarily due to the Cavalry merger, we increased the percentage of our outstanding loans in construction and land development loans significantly. These types of loans require that we maintain effective credit and construction monitoring systems. Also as a result of the Cavalry merger, we also increased our resources in this area so that we can attempt to effectively manage this area of exposure through utilization of experienced professionals who are well-trained in this type of lending and who have significant experience in our geographic market.

Table of Contents

The following table classifies our fixed and variable rate loans at December 31, 2007 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):

<i>Amounts at December 31, 2007</i>				<i>At December</i>	<i>At December</i>
	<i>Fixed</i>	<i>Variable</i>	<i>Totals</i>	<i>31,</i>	<i>31,</i>
	<i>Rates</i>	<i>Rates</i>		<i>2007</i>	<i>2006</i>
<i>Based on contractual maturity:</i>					
Due within one year	\$ 267,227	\$ 956,620	\$ 1,223,847	44.5%	40.9%
Due in one year to five years	836,154	266,926	1,097,079	39.9%	39.9%
Due after five years	142,701	286,014	428,715	15.6%	19.2%
Totals	\$ 1,246,082	\$ 1,503,559	\$ 2,749,641	100.0%	100.0%
<i>Based on contractual repricing dates:</i>					
Daily floating rate	\$	\$ 1,099,215	\$ 1,099,215	40.0%	46.1%
Due within one year	267,227	316,208	583,435	21.2%	13.6%
Due in one year to five years	836,154	55,810	891,963	32.4%	34.2%
Due after five years	142,701	32,327	175,028	6.4%	6.1%
Totals	\$ 1,246,802	\$ 1,503,559	\$ 2,749,641	100.0%	100.0%

The above information does not consider the impact of scheduled principal payments. Daily floating rate loans are tied to Pinnacle National's prime lending rate or a national interest rate index with the underlying loan rates changing in relation to changes in these indexes.

Non-Performing Assets. The specific economic and credit risks associated with our loan portfolio include, but are not limited to, a general downturn in the economy which could affect employment rates in our market areas, general real estate market deterioration, interest rate fluctuations, deteriorated or non-existent collateral, title defects, inaccurate appraisals, financial deterioration of borrowers, fraud, and any violation of laws and regulations.

We attempt to reduce these economic and credit risks by adherence to loan to value guidelines for collateralized loans, by investigating the creditworthiness of the borrower and by monitoring the borrower's financial position. Also, we establish and periodically review our lending policies and procedures. Banking regulations limit our exposure by prohibiting loan relationships that exceed 15% of Pinnacle National's statutory capital in the case of loans that are not fully secured by readily marketable or other permissible types of collateral. Furthermore, we have an internal limit for aggregate indebtedness to a single borrower of \$22 million. Our loan policy requires that our board of directors approve any relationships that exceed this internal limit.

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. At December 31, 2007, we had \$19,677,000 in loans on nonaccrual compared to \$7,070,000 at December 31, 2006. The increase in nonperforming loans between December 31, 2006 and December 31, 2007 was primarily related to loans acquired from Mid-America and identified as being impaired and several larger loans identified in the fourth quarter of 2007. As of December 31,

2007, approximately 52% of nonperforming loans were acquired from Mid-America.

At December 31, 2007, we owned \$1,673,000 in real estate which we had acquired from borrowers. Substantially all of this amount relates to homes that are in various stages of construction for which we believe we have adequate collateral. Approximately \$1.2 million of the amount at December 31, 2007 was acquired from Mid-America.

There was approximately \$1.61 million in other loans 90 days past due and still accruing interest at December 31, 2007 compared to \$737,000 in loans at December 31, 2006. At December 31, 2007 and at December 31, 2006, no loans were deemed to be restructured loans. The following table is a summary of our nonperforming assets at December 31 for each of the years in the five year period ended December 31, 2007 (dollars in thousands):

Page 40

Table of Contents

	<i>2007</i>	<i>2006</i>	<i>At December 31, 2005</i>	<i>2004</i>	<i>2003</i>
Nonaccrual loans (1)	\$ 19,677	\$ 7,070	\$ 460	\$ 561	\$ 379
Restructured loans					
Other real estate owned	1,673	995			
Total nonperforming assets	21,350	8,065	460	561	379
Accruing loans past due 90 days or more	1,613	737		146	182
Total nonperforming assets and accruing loans past due 90 days or more	\$ 22,963	\$ 8,802	\$ 460	\$ 707	\$ 561
Total loans outstanding	\$2,749,641	\$1,497,735	\$648,024	\$472,362	\$297,004
Ratio of nonperforming assets and accruing loans past due 90 days or more to total loans outstanding at end of period	0.84%	0.59%	0.07%	0.15%	0.19%
Ratio of nonperforming assets and accruing loans past due 90 days or more to total allowance for loan losses at end of period	80.66%	54.61%	5.85%	12.51%	15.08%

(1) Interest income that would have been recorded in 2007 related to nonaccrual loans was \$485,000 compared to \$283,000 for the year ended December 31, 2006 and \$21,000 for the year ended December 31, 2005, none of which is included in interest income

or net income
for the
applicable
periods.

Potential problem assets, which are not included in nonperforming assets, amounted to approximately \$15.3 million, or 0.56% of total loans outstanding at December 31, 2007, compared to \$6.0 million, or 0.24% of total loans outstanding at December 31, 2006. Potential problem assets represent those assets with a well-defined weakness and where information about possible credit problems of borrowers has caused management to have serious 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 the OCC, Pinnacle National's primary regulator, for loans classified as substandard. *Allowance for Loan Losses (ALL)*. We maintain the ALL at a level that our management deems appropriate to adequately cover the probable losses in the loan portfolio. As of December 31, 2007 and December 31, 2006, our allowance for loan losses was \$28,470,000 and \$16,118,000, respectively, which our management deemed to be adequate at each of the respective dates. The significant increase in our ALL was primarily the result of our merger with Mid-America. The judgments and estimates associated with our ALL determination are described under Critical Accounting Estimates above.

We periodically analyze our loan position with respect to our borrowers' industries to determine if a concentration of credit risk exists to any one or more industries. We have significant credit exposures arising from loans outstanding and unfunded lines of credit to borrowers in the home building and land subdividing industry, the trucking industry and to lessors of residential and commercial properties. We evaluate our exposure level to these industry groups periodically to determine the amount of additional allowance allocations due to these concentrations.

The following table sets forth, based on management's best estimate, the allocation of the ALL 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 the total loans (dollars in thousands):

		2007		2006		2005		2004		2003	
		Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial real estate	Mortgage	\$ 8,068	26.4%	\$ 4,550	19.0%	\$ 1,488	22.9%	\$ 1,205	24.8%	\$ 723	23.1%
Consumer real estate	Mortgage	1,890	20.8%	913	20.0%	1,286	26.2%	869	26.9%	607	25.6%
Construction and land development		4,897	18.7%	2,869	16.9%	690	10.5%	227	5.0%	113	3.8%
Commercial and industrial		11,660	30.4%	6,517	40.6%	2,305	36.9%	1,711	40.1%	1,236	43.7%
Consumer and other loans		1,400	3.7%	870	3.5%	552	3.6%	396	3.3%	320	3.8%
Unallocated		555	NA	399	NA	1,537	NA	1,242	NA	720	NA
Total allowance for loan losses		\$28,470	100.0%	\$16,118	100.0%	\$7,858	100.0%	\$5,650	100.0%	\$3,719	100.0%

In periods prior to 2006, the unallocated portion of the allowance consisted of dollar amounts specifically set aside for certain general factors influencing the allowance. These factors included ratio trends and other factors not specifically allocated to each category. Establishing the percentages for these factors was largely subjective but was supported by economic data, changes made in lending functions, and other support where appropriate. In 2006, the unallocated portion decreased significantly, due to a more comprehensive and refined methodology to assess the adequacy of our allowance for loan losses. As a result, in 2006, the methodology was refined to embed many of the factors previously included in the unallocated portion of the allowance to the

Table of Contents

allocated amounts above for each category. This enhancement established a methodology whereby national and economic factors, concentrations in market segments, loan review and portfolio performance could be assigned to these specific categories.

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, 2007 and the ratio of the allowance for loan losses to total loans as of the end of each period (dollars in thousands):

		<i>For the year ended December 31,</i>			
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Balance at beginning of period	\$16,118	\$ 7,858	\$5,650	\$ 3,719	\$2,677
Provision for loan losses	4,720	3,732	2,152	2,948	1,157
Allowance from Mid-America (2007) and Cavalry (2006) acquisitions	8,695	5,102			
Charged-off loans:					
Commercial real estate Mortgage	(22)				
Consumer real estate Mortgage	(364)	(46)	(38)	(834)	(123)
Construction and land development	(271)				
Commercial and industrial	(326)	(436)	(61)	(50)	
Consumer and other loans	(359)	(336)	(109)	(148)	(44)
Total charged-off loans	(1,342)	(818)	(208)	(1,032)	(167)
Recoveries of previously charged-off loans:					
Commercial real estate Mortgage					
Consumer real estate Mortgage	125		231		
Commercial real estate Construction	1			2	49
Commercial and industrial	51	166	3		
Consumer Other	102	78	30	13	3
Total recoveries of previously charged-off loans	279	244	264	15	52
Net (charge-offs) recoveries	(1,063)	(574)	56	(1,017)	(115)
Balance at end of period	\$28,470	\$16,118	\$7,858	\$ 5,650	\$3,719
Ratio of allowance for loan losses to total loans outstanding at end of period	1.04%	1.08%	1.21%	1.20%	1.25%
Ratio of net charge-offs (recoveries) to average loans outstanding for the period	0.06%	0.05%	(0.01)%	0.27%	0.05%

As noted in our critical accounting policies, 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 portfolios, past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the

borrower's ability to repay (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. 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. Although the allowance increased by \$12.35 million between December 31, 2007 (of which \$8.70 million was acquired with Mid-America) and December 31, 2006, the ratio of our allowance for loan losses to total loans outstanding decreased to 1.04% at December 31, 2007 compared to 1.08% at December 31, 2006. The reduction in the ratio between the two dates is primarily attributable to improvements in the overall credit quality of our portfolio. In the future, the allowance to total loans outstanding ratio will increase or decrease to the extent the factors that influence our quarterly allowance assessment in their entirety either improve or weaken.

Included in charged-off loans in 2006 was one commercial borrower of approximately \$404,000 which had been on nonaccruing status since the fourth quarter of 2005. Included in the charged-off loans during 2004 were two loans totaling approximately \$884,000, \$834,000 of which had been on nonaccrual status since June of 2004. We recovered approximately \$231,000 of these particular charge-offs in 2005.

Statement of Position 03-03, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-03) addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality (i.e., impaired loans). SOP 03-03 does not apply to loans originated by us but does apply to the loans we acquired in our mergers with Mid-America and Cavalry. Prior to the merger with Mid-America and due to deteriorating credit conditions during the fourth quarter of 2007, the management of Mid-America identified approximately \$19 million in loans which had weaker credit conditions and charged-off approximately \$8.9 million related to these loans. Subsequently, our assessment indicated that Mid-

Table of Contents

America had \$10.3 million of loans to which the application of the provisions of SOP 03-03 was required as of the merger date with Mid-America. We recorded no further accounting adjustments to these balances as of November 30, 2007. As to the Cavalry merger, Cavalry had approximately \$3.9 million of loans to which the application of the provisions of SOP 03-03 was required. As a result of the application of SOP 03-03, we recorded purchase accounting adjustments to reflect a reduction in loans and the allowance for loan losses of \$1.0 million related to these impaired loans thus reducing the carrying value of these loans to \$2.9 million at March 15, 2006. All of the impaired Mid-America and Cavalry loans were classified as nonperforming at December 31, 2007.

Investments. Our investment portfolio, consisting primarily of Federal agency bonds, state and municipal securities and mortgage-backed securities, amounted to \$522.7 million and \$346.5 million at December 31, 2007 and 2006, respectively.

The following table shows the carrying value of investment securities according to contractual maturity classifications of (1) one year or less, (2) after one year through five years, (3) after five years through ten years, and (4) after ten years. Actual maturities may differ from contractual maturities of mortgage-backed securities because the mortgages underlying the securities may be called or prepaid with or without penalty. Therefore, these securities are not included in the maturity categories noted below as of December 31, 2007 and 2006 (dollars in thousands):

	<i>U.S.</i>				<i>At December 31, State and Municipal</i>					
	<i>Treasury securities</i>	<i>U.S. government agency securities</i>	<i>securities</i>	<i>Yield</i>	<i>securities</i>	<i>Yield</i>	<i>Corporate securities</i>	<i>Yield</i>	<i>Totals</i>	<i>Yield</i>
	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Yield</i>	<i>Amount</i>	<i>Yield</i>	<i>Amount</i>	<i>Yield</i>	<i>Amount</i>	<i>Yield</i>
<i>At December 31, 2007:</i>										
<i>Securities available-for-sale:</i>										
Due in one year or less	\$	% \$16,612	4.3%		\$ 12,463	5.2%	\$ 490	3.4%	\$ 29,565	4.7%
Due in one year to five years		% 43,097	4.5%		27,089	5.3%	1,488	3.9%	71,674	4.8%
Due in five years to ten years		% 6,774	5.1%		45,545	5.6%		5.2%	52,319	5.5%
Due after ten years		% 3,180	4.9%		40,809	5.6%	400	5.4%	44,389	5.5%
	\$	% \$69,663	4.5%		\$125,906	5.5%	\$2,378	5.2%	\$197,947	5.2%
<i>Securities held-to-maturity:</i>										
Due in one year or less	\$	% \$	%	\$ 1,578	5.0%	\$	%	\$ 1,578	5.0%	
Due in one year to five years		% 15,750	4.2%	6,786	4.4%		%	22,536	4.3%	
Due in five years to ten years		% 1,997	4.8%	922	5.0%		%	2,919	4.8%	
Due after ten years		%	%		%		%		%	%
	\$	% \$17,747	4.3%	\$ 9,286	4.6%	\$	%	\$ 27,033	4.4%	
<i>At December 31, 2006:</i>										
<i>Securities available-for-sale:</i>										
Due in one year or less	\$	% \$	%	\$ 2,240	4.5%	\$ 398	3.2%	\$ 2,638	4.3%	
Due in one year to five years		% 30,105	4.7%	22,121	5.2%	1,427	3.4%	53,653	4.9%	
Due in five years to ten years		% 7,524	5.2%	28,848	5.4%		%	36,372	5.4%	
Due after ten years		%	%	8,750	5.7%		%	8,750	5.7%	
	\$	% \$37,629	4.8%	\$ 61,959	5.3%	\$1,825	3.4%	\$101,413	5.1%	

Securities held-to-maturity:

Due in one year or less	\$	%	\$	%	\$	154	5.6%	\$	%	\$	154	5.6%
Due in one year to five years		%	15,750	4.2%		5,777	4.9%		%		21,527	4.4%
Due in five years to ten years		%	1,997	4.8%		3,579	5.0%		%		5,576	4.9%
Due after ten years		%		%			%		%			%
	\$	%	\$17,747	4.3%	\$	9,510	5.0%	\$	%	\$	27,257	4.5%

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 \$2.93 billion of deposits at December 31, 2007 compared to \$1.62 billion at December 31, 2006. 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 \$156.1 million at December 31, 2007 and \$141.0 million at December 31, 2005. Additionally, at December 31, 2007, we had borrowed \$92.8 million in advances from the Federal Home Loan Bank of Cincinnati compared to \$53.7 million at December 31, 2006.

Page 43

Table of Contents

Traditionally, banks classify their funding base as either core funding or non-core funding. Core funding consists of all deposits other than time deposits issued in denominations of \$100,000 or greater while all other funding is deemed to be non-core. The following table represents the balances of our deposits and other fundings and the percentage of each type to the total at December 31, 2007 and December 31, 2006 (dollars in thousands):

	<i>December 31, 2007</i>	<i>Percent</i>	<i>December 31, 2006</i>	<i>Percent</i>
<i>Core funding:</i>				
Noninterest-bearing deposit accounts	\$ 400,120	12.1%	\$ 300,978	16.1%
Interest-bearing demand accounts	410,661	12.4%	236,674	12.7%
Savings and money market accounts	742,354	22.5%	485,936	26.0%
Time deposit accounts less than \$100,000	371,881	11.3%	158,687	8.5%
Total core funding	1,925,016	58.2%	1,182,275	63.3%
<i>Non-core funding:</i>				
Time deposit accounts greater than \$100,000				
Public funds	104,902	3.2%	98,286	5.3%
Brokered deposits	163,188	4.9%	61,718	3.3%
Other time deposits	732,213	22.2%	280,132	15.0%
Securities sold under agreements to repurchase	156,071	4.7%	141,016	7.5%
Federal Home Loan Bank advances and other borrowings	141,666	4.3%	53,726	2.9%
Subordinated debt	82,476	2.5%	51,548	2.8%
Total non-core funding	1,380,516	41.8%	686,426	36.7%
Totals	\$3,305,532	100.0%	\$1,868,701	100.0%

The amount of time deposits as of December 31, 2007 amounted to \$1.37 million. The following table shows our time deposits in denominations of under \$100,000 and those of denominations of \$100,000 and greater by category based on time remaining until maturity of (1) three months or less, (2) over three but less than six months, (3) over six but less than twelve months and (4) over twelve months and the weighted average rate for each category (dollars in thousands):

	Balances	Weighted Avg. Rate
<i>Denominations less than \$100,000</i>		
Three months or less	\$ 124,339	4.91%
Over three but less than six months	88,374	4.85%
Over six but less than twelve months	110,856	4.84%
Over twelve months	48,312	4.69%
	371,881	4.84%
<i>Denomination \$100,000 and greater</i>		
Three months or less	446,096	4.71%

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Over three but less than six months	204,522	5.04%
Over six but less than twelve months	193,500	5.06%
Over twelve months	156,124	5.04%
	1,000,302	4.90%
Totals	\$1,372,183	4.88%

Subordinated debt and holding company line of credit. On December 29, 2003, we established PNFP Statutory Trust I; on September 15, 2005 we established PNFP Statutory Trust II; on September 7, 2006 we established PNFP Statutory Trust III and on October 31, 2007 we established PNFP Statutory Trust IV (Trust I ; Trust II ; Trust III , Trust IV or collectively, the Trusts). All are wholly-owned statutory business trusts. We are the sole sponsor of the Trusts and acquired each Trust s common securities for \$310,000; \$619,000; \$619,000 and \$928,000, respectively. The Trusts were created for the exclusive purpose of issuing 30-year capital trust preferred securities (Trust Preferred Securities) in the aggregate amount of \$10,000,000 for Trust I; \$20,000,000 for Trust II; \$20,000,000 for Trust III; and \$30,000,000 for Trust IV and using the proceeds to acquire junior subordinated debentures (Subordinated Debentures) issued by Pinnacle Financial. The sole assets of the Trusts are the Subordinated Debentures. At December 31, 2007, our \$2,476,000 investment in the Trusts is included in investments in unconsolidated subsidiaries in the accompanying consolidated balance sheets and our \$82,476,000 obligation is reflected as subordinated debt.

The Trust I Preferred Securities bear a floating interest rate based on a spread over 3-month LIBOR (8.49% at December 31, 2007) which is set each quarter and matures on December 30, 2033. The Trust II Preferred Securities bear a fixed interest rate of 5.848%

Table of Contents

per annum through September 30, 2010 at which time the securities will bear a floating rate set each quarter based on a spread over 3-month LIBOR. The Trust II securities mature on September 30, 2035. The Trust III Preferred Securities bear a floating interest rate based on a spread over 3-month LIBOR (6.88% at December 31, 2007) which is set each quarter and mature on September 30, 2036. The Trust IV Preferred Securities bear a floating interest rate based on a spread over 3-month LIBOR (7.76% at December 31, 2007) which is set each quarter and mature on September 30, 2037.

Distributions are payable quarterly. The Trust Preferred Securities are subject to mandatory redemption upon repayment of the Subordinated Debentures at their stated maturity date or their earlier redemption in an amount equal to their liquidation amount plus accumulated and unpaid distributions to the date of redemption. We guarantee the payment of distributions and payments for redemption or liquidation of the Trust Preferred Securities to the extent of funds held by the Trusts. Pinnacle Financial's obligations under the Subordinated Debentures together with the guarantee and other back-up obligations, in the aggregate, constitute a full and unconditional guarantee by Pinnacle Financial of the obligations of the Trusts under the Trust Preferred Securities.

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

Subject to approval by the Federal Reserve Bank of Atlanta, the Trust Preferred Securities may be redeemed prior to maturity at our option on or after September 17, 2008 for Trust I; on or after September 30, 2010 for Trust II; September 30, 2011 for Trust III and September 30, 2012 for Trust IV. The Trust Preferred Securities may also be redeemed at any time in whole (but not in part) in the event of unfavorable changes in laws or regulations that result in (1) the Trust becoming subject to federal income tax on income received on the Subordinated Debentures, (2) interest payable by the parent company on the Subordinated Debentures becoming non-deductible for federal tax purposes, (3) the requirement for the Trust to register under the Investment Company Act of 1940, as amended, or (4) loss of the ability to treat the Trust Preferred Securities as Tier I capital under the Federal Reserve capital adequacy guidelines. The Trust Preferred Securities for the Trusts qualify as Tier I capital under current regulatory definitions subject to certain limitations. Debt issuance costs associated with Trust I of \$120,000 consisting primarily of underwriting discounts and professional fees are included in other assets in the accompanying consolidated balance sheet. These debt issuance costs are being amortized over ten years using the straight-line method. There were no debt issuance costs associated with Trust II, Trust III or Trust IV.

At December 31, 2007, we had outstanding a \$9 million obligation to a bank secured by the outstanding common stock of Bank of the South. This obligation bears interest at Prime Rate less 1% and is due December 13, 2008. In February of 2008, we entered into a loan agreement related to a \$25 million line of credit with a regional bank. This line of credit will be used to support the growth of Pinnacle National and pay off the aforementioned \$9 million obligation. The \$25 million line of credit has a one year term, contains customary affirmative and negative covenants regarding the operation of our business, a negative pledge on the common stock of Pinnacle National and is priced at 30-day LIBOR plus 125 basis points.

Capital Resources. At December 31, 2007 and 2006, our stockholders' equity amounted to \$466.6 million and \$256.0 million, respectively. The 2007 increase of \$210.6 million was primarily attributable to \$183.5 million of common stock issued in connection with the Mid-America acquisition and \$24.3 million in comprehensive income, which was composed of \$23.0 million in net income and \$1.3 million of net unrealized holding gains associated with our available-for-sale portfolio. The 2006 increase of \$192.6 million was primarily attributable to \$171.1 million of common stock issued in connection with the Cavalry acquisition and \$18.8 million in comprehensive income, which was composed of \$17.9 million in net income and \$853,000 of net unrealized holding gains associated with our available-for-sale portfolio.

Dividends. Pinnacle National is subject to restrictions on the payment of dividends to Pinnacle Financial under federal banking laws and the regulations of the Office of the Comptroller of the Currency. We, in turn, are also subject to

limits on payment of dividends to our shareholders by the rules, regulations and policies of federal banking authorities and the laws of the State of Tennessee. We have not paid any dividends to date, nor do we anticipate paying dividends to our shareholders for the foreseeable future. Future dividend policy will depend on Pinnacle National's earnings, capital position, financial condition, anticipated growth rates and other factors.

Page 45

Table of Contents

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 model. These measurements are used in conjunction with competitive pricing analysis.

Earnings simulation model. We believe that interest rate risk is best measured by our earnings simulation modeling. Forecasted levels of earning assets, interest-bearing liabilities, and off-balance sheet financial instruments are combined with ALCO forecasts of interest rates for the next 12 months and are combined with other factors in order to produce various earnings simulations. To limit interest rate risk, we have guidelines for our earnings at risk which seek to limit the variance of net interest income to less than a 20 percent decline for a 300 basis point change up or down in rates from management's flat interest rate forecast over the next twelve months; to less than a 10 percent decline for a 200 basis point change up or down in rates from management's flat interest rate forecast over the next twelve months; and to less than a 5 percent decline for a 100 basis point change up or down in rates from management's flat interest rate forecast over the next twelve months. The results of our current simulation model would indicate that we are in compliance with our current guidelines at December 31, 2007.

Economic value of equity. Our economic value of equity model measures the extent that estimated economic values of our assets, liabilities and off-balance sheet items will change as a result of interest rate changes. Economic values are determined by discounting expected cash flows from assets, liabilities and off-balance sheet items, which establishes a base case economic value of equity. To help limit interest rate risk, we have a guideline stating that for an instantaneous 300 basis point change in interest rates up or down, the economic value of equity should not decrease by more than 30 percent from the base case; for a 200 basis point instantaneous change in interest rates up or down, the economic value of equity should not decrease by more than 20 percent; and for a 100 basis point instantaneous change in interest rates up or down, the economic value of equity should not decrease by more than 10 percent. The results of our current economic value of equity model would indicate that we are in compliance with our current guidelines at December 31, 2007.

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

We may also use derivative financial instruments to improve the balance between interest-sensitive assets and interest-sensitive liabilities and as one tool to manage our interest rate sensitivity while continuing to meet the credit and deposit needs of our customers. Beginning in 2007, we entered into interest rate swaps (swaps) to facilitate

customer transactions and meet their financing needs. These swaps qualify as derivatives, but are not designated as hedging instruments. At December 31, 2007 and 2006, we had not entered into any derivative contracts to assist managing our interest rate sensitivity.

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

Table of Contents

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.

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.

In addition, Pinnacle National is a member of the Federal Home Loan Bank of Cincinnati (FHLB). As a result, Pinnacle National receives advances from the FHLB, pursuant to the terms of various borrowing agreements, which assist it in the funding of its home mortgage and commercial real estate loan portfolios. Pinnacle National has pledged under the borrowing agreements with the Federal Home Loan Bank of Cincinnati certain qualifying residential mortgage loans and, pursuant to a blanket lien, all qualifying commercial mortgage loans as collateral. At December 31, 2007, our bank subsidiaries had received advances from the Federal Home Loan Bank of Cincinnati totaling \$92.8 million at the following rates and maturities (dollars in thousands):

	Amount	Interest Rates
2008	\$ 15,554	5.02%
2009	15,000	5.01%
2010	13,250	4.56%
2011		NA
2012	30,294	3.51%
Thereafter	18,706	4.02%
Total	\$ 92,804	

Weighted average interest rate 4.26%

Pinnacle National also has accommodations with upstream correspondent banks for unsecured short-term advances. These accommodations have various covenants related to their term and availability, and in most cases must be repaid within less than a month. At December 31, 2007, our bank subsidiaries had borrowed from correspondent banks \$48.9 million under such arrangements.

At December 31, 2007, brokered certificates of deposit approximated \$163.2 million which represented 4.9% of total fundings compared to \$61.7 million and 3.3% at December 31, 2006. We issue these brokered certificates through several different brokerage houses based on competitive bids. Typically, these funds are for varying maturities from nine months to two years and are issued at rates which are competitive to rates we would be required to pay to attract similar deposits from the local market as well as rates for Federal Home Loan Bank of Cincinnati advances of similar maturities. We consider these deposits to be a ready source of liquidity under current market conditions.

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 for their excess funds), Federal Home Loan Bank of Cincinnati advances and Federal funds purchased. Information concerning our short-term borrowings as of and for

each of the years in the three-year period ended December 31, 2007 is as follows (dollars in thousands):

	2007	2006	2005
Amounts outstanding at year-end:			
Securities sold under agreements to repurchase	\$156,071	\$141,016	\$65,834
Federal funds purchased	48,862		
Federal Home Loan Bank advances	92,804	25,000	29,500
Weighted average interest rates at year-end:			
Securities sold under agreements to repurchase	2.81%	4.33%	3.16%

Page 47

Table of Contents

	2007	2006	2005
Federal funds purchased	3.75%		
Federal Home Loan Bank advances	4.26%	5.36%	3.21%
Maximum amount of borrowings at any month-end:			
Securities sold under agreements to repurchase	\$216,321	\$166,520	\$69,767
Federal funds purchased	48,862	9,985	18,702
Federal Home Loan Bank advances	92,804	25,000	35,500
Average balances for the year:			
Securities sold under agreements to repurchase	\$181,621	\$101,144	\$54,811
Federal funds purchased	5,544	1,260	1,607
Federal Home Loan Bank advances	38,528	6,284	24,208
Weighted average interest rates for the year:			
Securities sold under agreements to repurchase	4.06%	4.28%	2.40%
Federal funds purchased	5.15%	5.26%	3.51%
Federal Home Loan Bank advances	4.97%	4.70%	2.65%

At December 31, 2007, we had no significant commitments for capital expenditures. However, we are in the process of developing our branch network and other office facilities in the Nashville MSA and the Knoxville MSA. As a result, we anticipate that we will enter into contracts to buy property or construct branch facilities and/or lease agreements to lease facilities in the Nashville MSA and Knoxville MSA, including recently entering into agreements to relocate our downtown office facility in Nashville, Tennessee to a new facility projected to open in 2010. The following table presents additional information about our contractual obligations as of December 31, 2007, which by their terms have contractual maturity and termination dates subsequent to December 31, 2007 (dollars in thousands):

	<i>Next 12</i>	<i>13-36</i>	<i>37-60</i>	<i>More than 60</i>	
	<i>months</i>	<i>months</i>	<i>months</i>	<i>months</i>	<i>Totals</i>
Contractual obligations:					
Certificates of deposit	\$ 1,167,747	\$ 185,837	\$ 18,599	\$	\$ 1,372,183
Securities sold under agreements to repurchase	156,071				156,071
Federal Home Loan Bank advances and other borrowings	64,416	28,250	30,294	18,706	141,666
Subordinated debt	10,310	20,619	51,547		82,476
Minimum operating lease commitments	1,846	3,551	2,703	10,227	18,327
Totals	\$ 1,400,390	\$ 238,257	\$ 103,143	\$ 28,933	\$ 1,770,723

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.

Off-Balance Sheet Arrangements. At December 31, 2007, we had outstanding standby letters of credit of \$98.3 million and unfunded loan commitments outstanding of \$833.9 million. 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 National 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, 2007, which by their terms have contractual maturity dates subsequent to December 31, 2007 (dollars in thousands):

	<i>Next 12 months</i>	<i>13-36 months</i>	<i>37-60 months</i>	<i>More than 60 months</i>	<i>Totals</i>
<i>Unfunded commitments:</i>					
Lines of credit	\$ 559,721	\$ 90,174	\$ 44,496	\$ 139,502	\$ 833,893
Letters of credit	84,504	12,301	1,500		98,305
Totals	\$ 644,225	\$ 102,475	\$ 45,996	\$ 139,502	\$ 932,198

Table of Contents

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.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies only to fair-value measurements that are already required or permitted by other accounting standards and is expected to increase the consistency of those measurements. The definition of fair value focuses on the exit price, i.e., the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not the entry price, i.e., the price that would be paid to acquire the asset or received to assume the liability at the measurement date. The statement emphasizes that fair value is a market-based measurement; not an entity-specific measurement. Therefore, the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. The effective date for SFAS No. 157 is for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not believe SFAS No. 157 will have a significant impact on our consolidated financial statements.

In February of 2007, the FASB issued Statement of Financial Accounting Standard No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities, which gives entities the option to measure eligible financial assets, and financial liabilities at fair value on an instrument by instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. This statement is effective as of the beginning of a company's first fiscal year after November 15, 2007. We do not believe SFAS No. 159 will have a significant impact on our consolidated financial statements.

In June 2006, the Emerging Issues Task Force issued EITF No. 06-4, Accounting for Deferred Compensation and Postretirement Benefits Aspects of Endorsement Split-Dollar Life Insurance Arrangements. The EITF concluded that deferred compensation or postretirement benefit aspects of an endorsement split-dollar life insurance arrangement should be recognized as a liability by the employer and the obligation is not effectively settled by the purchase of a life insurance policy. The effective date is for fiscal years beginning after December 15, 2007. On January 1, 2008, we accounted for this EITF as a change in accounting principle and recorded a liability of \$985,000 along with a corresponding adjustment to beginning retained earnings.

In December 2007, the SEC issued SAB 110, Share-Based Payment. SAB 110 allows eligible public companies to continue to use a simplified method for estimating the expense of stock options if their own historical experience isn't sufficient to provide a reasonable basis. Under SAB 107, Share-Based Payment, the simplified method was scheduled to expire for all grants made after December 31, 2007. The SAB describes disclosures that should be provided if a company is using the simplified method for all or a portion of its stock option grants beyond December 31, 2007. The provisions of this bulletin are effective on January 1, 2008. Pinnacle Financial plans to retain use of the simplified method allowed by SAB 110 for determining the expected term component for share options granted during 2008.

In December 2007, the FASB issued SFAS 141R, Business Combinations. SFAS 141R clarifies the definitions of both a business combination and a business. All business combinations will be accounted for under the acquisition method (previously referred to as the purchase method). This standard defines the acquisition date as the only relevant date for recognition and measurement of the fair value of consideration paid. SFAS 141R requires the acquirer to expense all acquisition related costs. SFAS 141R will also require acquired loans to be recorded net of the allowance for loan losses on the date of acquisition. SFAS 141R defines the measurement period as the time after the acquisition date during which the acquirer may make adjustments to the provisional amounts recognized at the acquisition date. This

period cannot exceed one year, and any subsequent adjustments made to provisional amounts are done retrospectively and restate prior period data. The provisions of this statement are effective for business combinations during fiscal years beginning after December 15, 2008. Pinnacle Financial has not determined the impact

Page 49

Table of Contents

that SFAS 141R will have on its financial position and results of operations and believes that such determination will not be meaningful until Pinnacle Financial enters into a business combination.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in consolidated financial statements. An Amendment of ARB No. 51. SFAS No. 160 requires noncontrolling interests to be treated as a separate component of equity, not as a liability or other item outside of equity. Disclosure requirements include net income and comprehensive income to be displayed for both the controlling and noncontrolling interests and a separate schedule that shows the effects of any transactions with the noncontrolling interests on the equity attributable to the controlling interest. The provisions of this statement are effective for fiscal years beginning after December 15, 2008. This statement should be applied prospectively except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. Pinnacle Financial does not expect the impact of SFAS No. 160 on its financial position, results of operations or cash flows to be material.

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 47 through 49 and is incorporated herein by reference.

Page 50

Table of Contents

ITEM 8. FINANCIAL STATEMENTS

Pinnacle Financial Partners, Inc. and Subsidiaries

Consolidated Financial Statements

Table of Contents

<u>Management Report on Internal Control Over Financial Reporting</u>	52
<u>Report of Independent Registered Public Accounting Firm Financial statements</u>	53
<u>Report of Independent Registered Public Accounting Firm Internal Control over Financial Reporting</u>	54
Consolidated Financial Statements:	
<u>Consolidated balance sheets</u>	55
<u>Consolidated statements of income</u>	56
<u>Consolidated statements of stockholders' equity and comprehensive income</u>	57
<u>Consolidated statements of cash flows</u>	58
<u>Notes to consolidated financial statements</u>	59

Table of Contents

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Pinnacle Financial Partners, Inc.'s management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. 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. In conducting the Pinnacle Financial Partners, Inc.'s evaluation of the effectiveness of its internal control over financial reporting, the Company has excluded the operations of Mid-America Bancshares, Inc. (Mid-America), which Pinnacle Financial Partners, Inc. merged with on November 30, 2007. At the acquisition date, total assets of Mid-America totaled \$1.252 billion. Further information concerning the acquisition of Mid-America appears in Note 2, Merger with Mid-America Bancshares, Inc., to the accompanying audited consolidated financial statements.

Based on our assessment we believe that, as of December 31, 2007, the Company's internal control over financial reporting is effective based on those criteria.

Pinnacle Financial Partners, Inc.'s independent registered public accounting firm has issued an audit report on Pinnacle Financial Partners Inc.'s internal control over financial reporting. This report appears on page 54 of this Annual Report on Form 10-K.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Pinnacle Financial Partners, Inc.:

We have audited the accompanying consolidated balance sheets of Pinnacle Financial Partners, Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in notes 1 and 11 to the consolidated financial statements, the Company changed its method of accounting for uncertainty in income taxes as required by FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* in 2007.

As discussed in notes 1 and 15 to the consolidated financial statements, the Company changed its method of accounting for share-based payments as required by SFAS 123(R), *Share-Based Payments* in 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 5, 2008, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Nashville, Tennessee

March 5, 2008

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Pinnacle Financial Partners, Inc.:

We have audited Pinnacle Financial Partners, Inc.'s (the Company) internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in management's accompanying report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company acquired Mid-America Bancshares (Mid-America) on November 30, 2007. Total assets of Mid-America totaled \$1.252 billion. Management excluded Mid-America's internal control over financial reporting from its effectiveness of the Company's internal control over financial reporting as of December 31, 2007. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Mid-America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated March 5, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Nashville, Tennessee

March 5, 2008

Table of Contents

PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2007	2006
<i>ASSETS</i>		
Cash and noninterest-bearing due from banks	\$ 76,941,931	\$ 43,611,533
Interest-bearing due from banks	24,706,966	1,041,174
Federal funds sold	20,854,966	47,866,143
Cash and cash equivalents	122,503,863	92,518,850
Securities available-for-sale, at fair value	495,651,939	319,237,428
Securities held-to-maturity (fair value of \$26,883,473 and \$26,594,235 at December 31, 2007 and December 31, 2006, respectively)	27,033,356	27,256,876
Mortgage loans held-for-sale	11,251,652	5,654,381
Loans	2,749,640,689	1,497,734,824
Less allowance for loan losses	(28,470,207)	(16,117,978)
Loans, net	2,721,170,482	1,481,616,846
Premises and equipment, net	68,385,946	36,285,796
Investments in unconsolidated subsidiaries and other entities	22,636,029	16,200,684
Accrued interest receivable	18,383,004	11,019,173
Goodwill	243,573,636	114,287,640
Core deposit intangible	17,325,988	11,385,006
Other assets	46,254,566	26,724,183
Total assets	\$3,794,170,461	\$2,142,186,863
<i>LIABILITIES AND STOCKHOLDERS' EQUITY</i>		
Deposits:		
Non-interest-bearing	\$ 400,120,147	300,977,814
Interest-bearing	410,661,187	236,674,425
Savings and money market accounts	742,354,465	485,935,897
Time	1,372,183,317	598,823,167
Total deposits	2,925,319,116	1,622,411,303
Securities sold under agreements to repurchase	156,070,830	141,015,761
Federal Home Loan Bank advances	92,804,133	53,725,833
Federal Funds purchased	48,862,000	

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Subordinated debt	82,476,000	51,548,000
Accrued interest payable	10,374,538	4,952,422
Other liabilities	11,653,550	12,516,523
 Total liabilities	 3,327,560,167	 1,886,169,842
 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; 22,264,817 issued and outstanding at December 31, 2007 and 15,446,074 issued and outstanding at December 31, 2006		
	22,264,817	15,446,074
Additional paid-in capital	390,977,308	211,502,516
Retained earnings	54,150,679	31,109,324
Accumulated other comprehensive loss, net of taxes	(782,510)	(2,040,893)
 Total stockholders' equity	 466,610,294	 256,017,021
 Total liabilities and stockholders' equity	 \$3,794,170,461	 \$2,142,186,863

See accompanying notes to consolidated financial statements.

Page 55

Table of Contents

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

	For the years ended December 31,		
	2007	2006	2005
Interest income:			
Loans, including fees	\$ 129,888,784	\$ 92,005,602	\$ 35,166,671
Securities:			
Taxable	13,961,714	12,614,623	9,086,134
Tax-exempt	3,066,519	2,016,044	1,115,486
Federal funds sold and other	4,014,424	3,059,750	939,369
Total interest income	150,931,441	109,696,019	46,307,660
Interest expense:			
Deposits	61,671,734	40,032,020	13,690,649
Securities sold under agreements to repurchase	7,371,490	4,329,327	1,315,122
Federal funds purchased and other borrowings	6,176,205	4,381,878	2,263,851
Total interest expense	75,219,429	48,743,225	17,269,622
Net interest income	75,712,012	60,952,794	29,038,038
Provision for loan losses	4,719,841	3,732,032	2,151,966
Net interest income after provision for loan losses	70,992,171	57,220,762	26,886,072
Noninterest income:			
Service charges on deposit accounts	7,941,029	4,645,685	977,386
Investment services	3,455,808	2,463,205	1,835,757
Insurance sales commissions	2,486,884	2,122,702	
Gains on loans and loan participations sold	1,858,077	1,868,184	1,247,898
Trust fees	1,908,440	1,180,839	
Gains on sales of investment securities, net	16,472		114,410
Other noninterest income	4,854,217	3,505,903	1,218,123
Total noninterest income	22,520,927	15,786,518	5,393,574
Noninterest expense:			
Salaries and employee benefits	36,145,588	27,469,275	13,130,779
Equipment and occupancy	10,260,915	7,521,602	3,766,593
Other real estate owned	160,367		
Marketing and other business development	1,676,455	1,234,497	698,232
Postage and supplies	1,995,267	1,510,048	618,060
Amortization of core deposit intangibles	2,144,018	1,783,230	
Merger related expense	621,883	1,635,831	

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Other noninterest expense	7,475,072	5,469,777	2,818,352
Total noninterest expense	60,479,565	46,624,260	21,032,016
Net income before income taxes	33,033,533	26,383,020	11,247,630
Income tax expense	9,992,178	8,455,987	3,192,362
Net income	\$ 23,041,355	\$ 17,927,033	\$ 8,055,268

Per share information:

Basic net income per common share	\$ 1.43	\$ 1.28	\$ 0.96
Diluted net income per common share	\$ 1.34	\$ 1.18	\$ 0.85
Weighted average common shares outstanding:			
Basic	16,100,076	13,954,077	8,408,663
Diluted	17,255,543	15,156,837	9,464,500

See accompanying notes to consolidated financial statements.

Page 56

Table of Contents

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

For the each of the years in the three-year period ended December 31, 2007

	Common Stock		Additional Paid-in	Unearned	Retained	Accumulated Other Comprehensive	Total
	Shares	Amount	Capital	Compensation	Earnings	Income (Loss)	Stockholders Equity
Balances, December 31, 2004	8,389,232	\$ 8,389,232	\$ 44,376,307	\$ (37,250)	\$ 5,127,023	\$ 24,863	\$ 57,880,175
Exercise of employee incentive common stock options and related tax benefits	20,953	20,953	153,808				174,761
Issuance of restricted common shares pursuant to 2004 Equity Incentive Plan	16,366	16,366	360,797	(377,163)			
Compensation expense for restricted shares				244,724			244,724
Comprehensive income:							
Net income					8,055,268		8,055,268
Net unrealized holding losses on available-for-sale securities, net of deferred tax benefit of \$1,788,761						(2,918,503)	(2,918,503)
Total comprehensive income							5,136,765
Balances, December 31, 2005	8,426,551	\$ 8,426,551	\$ 44,890,912	\$ (169,689)	\$ 13,182,291	\$ (2,893,640)	\$ 63,436,425

Transfer of unearned compensation to additional paid-in capital upon adoption of SFAS 123(R)			(169,689)	169,689	
Exercise of employee incentive common stock options and related tax benefits	130,168	130,168	1,240,724		1,370,892
Issuance of restricted common shares pursuant to 2004 Equity Incentive Plan	22,057	22,057	(22,057)		
Exercise of director common stock warrants	11,000	11,000	44,000		55,000
Compensation expense for restricted shares			465,003		465,003
Compensation expense for stock options			1,009,958		1,009,958
Merger with Cavalry Bancorp, Inc.	6,856,298	6,856,298	164,231,274		171,087,572
Costs to register common stock issued in connection with the merger with Cavalry Bancorp, Inc.			(187,609)		(187,609)
Comprehensive income:					
Net income				17,927,033	17,927,033
Net unrealized holding gains on available-for-sale securities, net of deferred tax expense of \$521,886				852,747	852,747

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Total comprehensive income							18,779,780
Balances, December 31, 2006	15,446,074	\$ 15,446,074	\$ 211,502,516	\$	\$ 31,109,324	\$(2,040,893)	\$ 256,017,021
Exercise of employee incentive common stock options, stock appreciation rights and related tax benefits	99,862	99,862	883,429				983,291
Issuance of restricted common shares pursuant to 2004 Equity Incentive Plan	42,301	42,301	(42,301)				
Compensation expense for restricted shares			396,378				396,378
Compensation expense for stock options			1,703,441				1,703,441
Merger with Mid-America Bancshares, Inc. Costs to register common stock issued in connection with the merger with Mid-America Bancshares, Inc.	6,676,580	6,676,580	176,833,242				183,509,822
Comprehensive income:			(299,397)				(299,397)
Net income					23,041,355		23,041,355
Net unrealized holding gains on available-for-sale securities, net of deferred tax expense of \$762,956						1,258,383	1,258,383
Total comprehensive							24,299,738

income

**Balances,
December 31,
2007**

22,264,817 \$22,264,817 \$390,977,308 \$ \$54,150,679 \$ (782,510) \$466,610,294

See accompanying notes to consolidated financial statements.

Page 57

Table of Contents

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

	For the years ended December 31,		
	2007	2006	2005
Operating activities:			
Net income	\$ 23,041,355	\$ 17,927,033	\$ 8,055,268
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization of premiums on securities	492,280	629,634	1,130,766
Depreciation and net amortization	3,810,374	1,382,401	1,699,380
Provision for loan losses	4,719,841	3,732,032	2,151,966
Gains on sales of investment securities, net	(16,472)		(114,410)
Gain on loans and loan participations sold, net	(1,858,077)	(1,868,184)	(1,247,898)
Stock-based compensation expense	2,099,819	1,474,961	244,724
Deferred tax (benefit) expense	3,977,708	(1,164,336)	(575,755)
Tax benefit on exercise of stock awards			(50,535)
Excess tax benefit from stock compensation	(105,809)	(131,121)	
Mortgage loans held for sale:			
Loans originated	(169,808,372)	(131,971,094)	(102,874,134)
Loans sold	169,599,685	134,301,622	100,730,532
Increase in other assets	(17,546,455)	(6,103,122)	(3,155,825)
Increase (decrease) in other liabilities	(2,011,851)	(6,303,665)	2,177,477
Net cash provided by operating activities	16,394,026	11,906,161	8,171,556
Investing activities:			
Activities in available for sale securities:			
Purchases	(78,978,057)	(62,760,686)	(116,361,069)
Sales	770,400		6,791,867
Maturities, prepayments and calls	51,518,109	35,568,504	32,935,215
Increase in loans, net	(386,164,624)	(297,565,733)	(175,606,019)
Purchases of premises and equipment and software	(6,071,813)	(4,649,676)	(3,438,916)
Cash and cash equivalents acquired in merger with Cavalry Bancorp, Inc., net of acquisition costs		36,230,539	
Cash and cash equivalents acquired in merger with Mid-America Bancshares, Inc., net of acquisition costs	38,149,471		
Purchases of other assets	(4,905,032)	(6,107,658)	(2,708,000)
Net cash used in investing activities	(385,681,546)	(299,284,710)	(258,386,922)
Financing activities:			
Net increase in deposits	346,584,243	229,745,145	239,423,716
Net increase (decrease) in repurchase agreements	(5,481,091)	75,181,529	33,906,372
Net increase in Federal funds purchased	48,862,000		
Federal Home Loan Bank:			

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Issuances	80,000,000	56,000,000	62,000,000
Payments	(102,304,513)	(61,540,828)	(74,000,000)
Proceeds from issuance of subordinated debt	30,928,000	20,619,000	20,619,000
Exercise of common stock warrants		55,000	
Exercise of common stock options and stock appreciation rights	877,482	1,239,771	174,761
Excess tax benefit from stock compensation	105,809	131,121	
Costs incurred in connection with registration of common stock issued in merger	(299,397)	(187,609)	
Net cash provided by financing activities	399,272,533	321,243,129	282,123,849
Net increase in cash and cash equivalents	29,985,013	33,864,580	31,908,483
Cash and cash equivalents, beginning of year	92,518,850	58,654,270	26,745,787
Cash and cash equivalents, end of year	\$ 122,503,863	\$ 92,518,850	\$ 58,654,270

See accompanying notes to consolidated financial statements.

Page 58

Table of Contents

**PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 National Bank (Pinnacle National). Pinnacle National is a commercial bank located in Nashville, Tennessee. Pinnacle National provides a full range of banking services in its primary market areas of Nashville-Davidson-Rutherford-Franklin and Knoxville Metropolitan Statistical Areas.

In addition to Pinnacle National, Pinnacle Financial, for the time period following the merger with Mid-America Bancshares, Inc. (Mid-America), through February 29, 2008, conducted banking operations through the two banks formerly owned by Mid-America: PrimeTrust Bank in Nashville, Tennessee and Bank of the South in Mt. Juliet, Tennessee. On February 29, 2008, Pinnacle National purchased all of the assets and assumed all of the liabilities of PrimeTrust Bank and simultaneously sold the charter of PrimeTrust Bank to an unaffiliated third party for \$500,000. Pinnacle Financial also merged Bank of the South into Pinnacle National on that date. References to Pinnacle National as of December 31, 2007 include PrimeTrust Bank and Bank of the South.

Basis of Presentation 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, PNFP Statutory Trust IV and Collateral Plus, LLC, 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. generally accepted accounting principles 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.

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

Goodwill and intangible assets that have indefinite useful lives are tested annually for impairment and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. Pinnacle Financial's annual assessment date is as of September 30 such that the assessment will be completed during the fourth quarter of each year. Should we determine in a future period that the goodwill recorded in connection with our acquisitions of Mid-America Bancshares, Inc. (Mid-America) and Cavalry Bancorp, Inc. (Cavalry) has been impaired, then a charge to our earnings will be recorded in the period such determination is made.

Cash Equivalents and Cash Flows Cash on hand, cash items in process of collection, amounts due from banks, Federal funds sold and securities purchased under agreements to resell, with original maturities within ninety days, are included in cash and cash equivalents. The following supplemental cash flow information addresses certain cash payments and noncash transactions for each of the years in the three-year period ended December 31, 2007 as follows:

Table of Contents

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

For the years ended December 31,
2007 2006 2005

Cash Payments:

Interest	\$ 76,735,790	\$ 50,752,304	\$ 16,154,326
Income taxes	7,900,000	8,280,000	3,802,633

Noncash Transactions:

Common stock, stock appreciation rights, and options issued to acquire Mid-America Bancshares, Inc. (see note 2)	183,509,822		
Common stock and options issued to acquire Cavalry Bancorp, Inc. (see note 3)		171,087,572	
Loans charged-off to the allowance for loan losses	1,341,890	818,467	207,647
Loans foreclosed upon with repossessions transferred to other assets	481,915	994,781	

Securities Securities are classified based on management's intention on the date of purchase. All debt securities classified as available-for-sale are recorded at fair value with any unrealized gains and losses reported in accumulated other comprehensive loss, net of the deferred income tax effects. Securities that Pinnacle Financial has both the positive intent and ability to hold to maturity are classified as held to maturity and are carried at historical cost and adjusted for amortization of premiums and accretion of discounts.

A decline in the fair value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether impairment is other-than-temporary, management considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end and forecasted performance of the investee.

Interest and dividends on securities, including amortization of premiums and accretion of discounts calculated under the effective interest method, are included in interest income. For certain securities, amortization of premiums and accretion of discounts is computed based on the anticipated life of the security which may not be the stated life of the security. Realized gains and losses from the sale of securities are determined using the specific identification method.

Loans Held for Sale Loans originated and intended for sale are carried at the lower of cost or estimated fair value as determined on a loan-by-loan basis. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Realized gains and losses are recognized when legal title to the loans has been transferred to the purchaser and payments have been received and are reflected in the accompanying consolidated statement of income in gains on the sale of loans and loan participations sold.

Loans Loans are reported at their outstanding principal balances less unearned income, the allowance for loan losses and any deferred fees or costs on originated loans. Interest income on loans is accrued based on the principal balance outstanding. Loan origination fees, net of certain loan origination costs, are deferred and recognized as an adjustment to the related loan yield using a method which approximates the interest method. At December 31, 2007 and 2006, net deferred loan fees of \$2.8 million and net deferred loan fees of \$3.4 million, respectively, were included in loans on the accompanying consolidated balance sheets. Net deferred loan fees at December 31, 2007 includes the unamortized discount of \$875,000 assigned to the loan portfolio acquired from the Mid-America acquisition as more fully discussed in Note 2 Merger with Mid-America Bancshares, Inc. . Net deferred loan fees at December 31, 2007 also includes the unamortized discount of \$794,000 assigned to the loan portfolio acquired from the Cavalry

acquisition as more fully discussed in Note 3 Merger with Cavalry Bancorp, Inc.

The accrual of interest on loans is discontinued when there is a significant deterioration in the financial condition of the borrower and full repayment of principal and interest is not expected or the principal or interest is more than 90 days past due, unless the loan is both well-secured and in the process of collection. Generally, all

Page 60

Table of Contents

**PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

interest accrued but not collected for loans that are placed on nonaccrual status is reversed against current income. Interest income is subsequently recognized only to the extent cash payments are received.

The allowance for loan losses is maintained at a level that management believes to be adequate to absorb probable losses in the loan portfolio. Loan losses are charged against the allowance when they are known. Subsequent recoveries are credited to the allowance. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, current economic conditions, volume, growth, composition of the loan portfolio, homogeneous pools of loans, risk ratings of specific loans, historical loan loss factors, identified impaired loans and other factors related to the portfolio. This evaluation is performed quarterly and is inherently subjective, as it requires material estimates that are susceptible to significant change including the amounts and timing of future cash flows expected to be received on any impaired loans. In addition, regulatory agencies, as an integral part of their examination process, will periodically review Pinnacle Financial's allowance for loan losses, and may require Pinnacle Financial to record adjustments to the allowance based on their judgment about information available to them at the time of their examinations.

A loan is considered to be impaired when it is probable Pinnacle Financial will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Individually identified impaired loans are measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance may be established as a component of the allowance for loan losses. Changes to the valuation allowance are recorded as a component of the provision for loan losses.

Transfers of Financial Assets Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from Pinnacle Financial, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) Pinnacle Financial does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

Premises and Equipment and Leaseholds Premises and equipment are carried at cost less accumulated depreciation and amortization computed principally by the straight-line method over the estimated useful lives of the assets or the expected lease terms for leasehold improvements, whichever is shorter. Useful lives for all premises and equipment range between three and thirty years.

Pinnacle National is the lessee with respect to several office locations. All such leases are being accounted for as operating leases within the accompanying consolidated financial statements. Several of these leases include rent escalation clauses. Pinnacle National expenses the costs associated with these escalating payments over the life of the expected lease term using the straight-line method. At December 31, 2007, the deferred liability associated with these escalating rentals was approximately \$540,000 and is included in other liabilities in the accompanying consolidated balance sheets.

Investments in unconsolidated subsidiaries and other entities In addition to investments in unconsolidated subsidiaries, Pinnacle Financial maintains certain investments, at cost, with certain regulatory and other entities in which Pinnacle Financial has an ongoing business relationship. These entities include the Federal Reserve Bank of Atlanta, the Bankers' Bank of Atlanta and the Federal Home Loan Bank of Cincinnati. At December 31, 2007 and 2006, the cost of these investments was \$15,655,000 and \$12,794,000, respectively. Pinnacle Financial determined that it is not practicable to estimate the fair value of these investments. Pinnacle Financial has not observed any events or changes in circumstances that would have had an adverse effect on the fair value of the investment. Additionally, Pinnacle Financial has recorded certain unconsolidated investments in other entities, at fair value, of \$1,252,000 and \$65,000 at December 31, 2007 and 2006. During 2007, Pinnacle Financial recorded a loss of \$35,000 due to reductions in the fair value of these investments. These investments are reflected in the accompanying consolidated balance sheets in investments in unconsolidated subsidiaries and other entities.

Securities sold under agreements to repurchase Pinnacle National routinely sells securities to certain treasury management customers and then repurchases these securities the next day. Securities sold under agreements to repurchase are reflected as a secured borrowing in the accompanying consolidated balance sheets at the amount of cash received in connection with each transaction.

Page 61

Table of Contents

**PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Other Assets Included in other assets as of December 31, 2007 and 2006, is approximately \$840,000 and \$765,000, respectively, of computer software related assets, net of amortization. This software supports Pinnacle Financial's primary data systems and relates to amounts paid to vendors for installation and development of such systems. These amounts are amortized on a straight-line basis over periods of three to seven years. For the years ended December 31, 2007, 2006 and 2005, Pinnacle Financial's amortization expense was approximately \$208,000, \$281,000 and \$272,000, respectively. Software maintenance fees are capitalized in other assets and amortized over the term of the maintenance agreement.

Included in other assets at December 31, 2007 and 2006 is \$1,673,000 and \$995,000, respectively, of other real estate owned (OREO). OREO represents properties acquired by Pinnacle National through loan defaults by customers. The property is recorded at the lower of cost or fair value less estimated costs to sell at the date acquired. An allowance for losses on OREO may be maintained for subsequent valuation adjustments on a specific property basis, when necessary. Any gains or losses realized at the time of disposal are reflected in non interest income or non interest expense, as applicable.

Pinnacle National is the owner and beneficiary of various life insurance policies on certain key executives and former Cavalry directors, including policies that were acquired in its merger with Cavalry. These policies are reflected in the accompanying consolidated balance sheets at their respective cash surrender values. At December 31, 2007 and 2006, the aggregate cash surrender value of these policies, which is reflected in other assets, was \$33.4 million and \$14.8 million, respectively.

Also included in other assets at December 31, 2007 and 2006 is \$648,000 and \$770,000, respectively, which is related to loan participations which have been sold to correspondent banks. These amounts represent the present value, net of amortization, of the future net cash flows retained by Pinnacle Financial. These amounts are amortized against net interest income over the life of the loan. Amortization of these amounts was \$361,000, \$127,000 and \$165,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

Derivative Instruments In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138 Accounting for Certain Derivative Instruments and Hedging Activities, an Amendment of SFAS No. 133, all derivative instruments are recorded on the consolidated balance sheet at their respective fair values.

The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and if so, on the reason for holding it. If the derivative instrument is not designated as a hedge, the gain or loss on the derivative instrument is recognized in earnings in the period of change. None of the derivatives utilized by Pinnacle Financial have been designated as a hedge.

Investment Services and Trust Fees Investment services and trust fees are recognized when earned. As of December 31, 2007 and 2006, Pinnacle Financial had accumulated approximately \$878 million and \$597 million, respectively, in brokerage assets under management. Additionally, the trust department had accumulated approximately \$464 million and \$395 million at December 31, 2007 and 2006, respectively, in trust assets under management.

Insurance Sales Commissions Insurance sales commissions are recognized as of the effective date of the policy and when the premium due under the policy can be reasonably estimated and when the premium is billable to the client, less a provision for commission refunds in the event of policy cancellation prior to termination date.

Income Taxes Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

The Company adopted FASB Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48), as of January 1, 2007. A tax position is recognized as a benefit only if it is more likely than not that the tax position

Table of Contents

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

would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The adoption had no material effect on the Company's financial statements.

It is Pinnacle Financial's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

Pinnacle Financial and its wholly-owned subsidiaries file a consolidated income tax return. Each entity provides for income taxes based on its contribution to income or loss of the consolidated group.

Income Per Common Share Basic earnings per 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 was attributable to common stock options, common stock appreciation rights, warrants and restricted shares. The dilutive effect of outstanding options, common stock appreciation rights, warrants and restricted shares is reflected in diluted earnings per share by application of the treasury stock method.

As of December 31, 2007 there were 2,384,000 stock options and 15,000 stock appreciation rights outstanding to purchase common shares. As of December 31, 2006 there were 1,658,000 stock options outstanding to purchase common shares. Most of these options have exercise prices and compensation costs attributable to current services, which when considered in relation to the average market price of Pinnacle Financial's common stock, are considered dilutive and are considered in Pinnacle Financial's diluted income per share calculation for each of the years in the three year period ended December 31, 2007. There were common stock options of 327,000 and 287,000 outstanding as of December 31, 2007 and 2006, respectively, which were considered anti-dilutive and thus have not been considered in the fully-diluted share calculations below. Additionally, as of December 31, 2007, 2006 and 2005, Pinnacle Financial had outstanding warrants to purchase 395,000, 395,000 and 406,000, respectively, of common shares which have been considered in the calculation of Pinnacle Financial's diluted income per share for each of the years in the three-year period ended December 31, 2007.

The following is a summary of the basic and diluted earnings per share calculation for each of the years in the three-year period ended December 31, 2007:

	<i>2007</i>	<i>2006</i>	<i>2005</i>
Basic earnings per share calculation:			
Numerator Net income	\$ 23,041,355	\$ 17,927,033	\$ 8,055,268
Denominator Average common shares outstanding	16,100,076	13,954,077	8,408,663
Basic net income per share	\$ 1.43	\$ 1.28	\$ 0.96
Diluted earnings per share calculation:			
Numerator Net income	\$ 23,041,355	\$ 17,927,033	\$ 8,055,268
Denominator Average common shares outstanding	16,100,076	13,954,077	8,408,663
Dilutive shares contingently issuable	1,155,467	1,202,760	1,055,837
Average diluted common shares outstanding	17,255,543	15,156,837	9,464,500
Diluted net income per share	\$ 1.34	\$ 1.18	\$ 0.85

Stock-Based Compensation On January 1, 2006, Pinnacle Financial adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No.123(R)), that addresses the accounting for

share-based payment transactions in which a company receives employee services in exchange for equity instruments. SFAS No. 123(R) eliminates the ability to account for share-based compensation transactions, as Pinnacle Financial formerly did, using the intrinsic value method as prescribed by Accounting Principles Board, (APB), Opinion No. 25, Accounting for Stock Issued to Employees, and generally requires that such transactions be accounted for using a fair-value-based method and recognized as expense in the accompanying consolidated statement of income.

Page 63

Table of Contents

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

Pinnacle Financial adopted SFAS No. 123(R) using the modified prospective method which required the application of the accounting standard as of January 1, 2006. The accompanying consolidated financial statements as of and for the two year period ended December 31, 2007 and 2006 reflect the impact of adopting SFAS No. 123(R). In accordance with the modified prospective method, consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123(R). See Note 15 for further details.

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that are ultimately expected to vest. Stock-based compensation expense recognized in the accompanying consolidated statement of income during 2007 and 2006 included compensation expense for stock-based payment awards granted prior to, but not yet vested, as of January 1, 2006 and for the stock-based awards granted after January 1, 2006, based on the grant date fair value estimated in accordance with SFAS No. 123(R). As stock-based compensation expense recognized in the accompanying consolidated statements of income for 2007 and 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the pro forma information for 2005, which is also detailed in Note 15 we accounted for forfeitures as they occurred.

Comprehensive Income (Loss) SFAS No. 130, *Reporting Comprehensive Income* describes comprehensive income as the total of all components of comprehensive income including net income. Other comprehensive income refers to revenues, expenses, gains and losses that under U.S. generally accepted accounting principles are included in comprehensive income but excluded from net income. Currently, Pinnacle Financial's other comprehensive loss consists of unrealized gains and losses, net of deferred income taxes, on available-for-sale securities.

Note 2. Merger with Mid-America Bancshares, Inc.

On November 30, 2007, Pinnacle Financial consummated its merger with Mid-America Bancshares, Inc. (Mid-America), a two-bank holding company located in Nashville, Tennessee. Pursuant to the merger agreement, Pinnacle acquired all Mid-America common stock via an exchange whereby Mid-America shareholders received a fixed exchange ratio of 0.4655 shares of Pinnacle Financial common stock and \$1.50 in cash for each share of Mid-America common stock, or approximately 6.7 million Pinnacle Financial shares and \$21.6 million in cash. The accompanying consolidated financial statements include the activities of the former Mid-America since November 30, 2007.

In accordance with SFAS No. 141, *Accounting for Business Combinations* (SFAS No. 141), SFAS No. 142, *Goodwill and Intangible Assets* (SFAS No. 142) and SFAS No. 147, *Acquisition of Certain Financial Institutions* (SFAS No. 147), Pinnacle Financial recorded at fair value the following assets and liabilities of Mid-America as of November 30, 2007 (in thousands):

Cash and cash equivalents	\$ 60,795
Investment securities – available-for-sale	147,766
Loans, net of an allowance for loan losses of \$8,695	855,887
Goodwill	129,334
Core deposit intangible	8,085
Other assets	49,854
 Total assets acquired	 1,251,721
 Deposits	 957,076
Federal Home Loan Bank advances	61,383
Other liabilities	27,107

Total liabilities assumed	1,045,566
Total consideration paid for Mid-America	\$ 206,155

As noted above, total consideration for Mid-America approximates \$206.2 million of which \$183.5 million was in the form of Pinnacle Financial common shares, options, and stock appreciation rights to acquire Pinnacle Financial common shares, \$21.6 million was in the form of cash, and \$1.1 million in investment banking fees,

Page 64

Table of Contents

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

attorney's fees and other costs related to the acquisition which have been accounted for as a component of the purchase price. Pinnacle Financial issued 6,676,580 shares of Pinnacle Financial common stock to the former Mid-America shareholders. In accordance with EITF No. 99-12, Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination, the consideration shares were valued at \$26.26 per common share which represents the average closing price of Pinnacle Financial common stock from the two days prior to the merger announcement on August 15, 2007 through the two days after the merger announcement.

Aggregate consideration for the common stock issued was approximately \$196.9 million. Additionally, Pinnacle Financial also has assumed several equity incentive plans, including the Mid-America Bancshares, Inc. 2006 Omnibus Equity Incentive Plan (the Mid-America Plans) pursuant to which Pinnacle is obligated to issue 487,835 shares of Pinnacle Financial common stock upon exercise of stock options and stock appreciation rights awarded to certain former Mid-America employees who held outstanding options and stock appreciation rights as of November 30, 2007. All of these options and stock appreciation rights were fully vested prior to the merger announcement date and expire at various dates between 2011 and 2017. The exercise prices for these stock options and the grant prices for these stock appreciation rights range between \$6.63 per share and \$21.37 per share. In accordance with SFAS No. 141, Pinnacle Financial has considered the fair value of these options and stock appreciation rights in determining the acquisition cost of Mid-America. The fair value of these vested options and stock appreciation rights approximated \$8.2 million which has been included as a component of the aggregate purchase price.

In accordance with SFAS Nos. 141 and 142, Pinnacle Financial has preliminarily recognized \$8.1 million as a core deposit intangible. This identified intangible is being amortized over ten years using an accelerated method which anticipates the life of the underlying deposits to which the intangible is attributable. For the year ended December 31, 2007, approximately \$81,000 was recognized in the accompanying consolidated statement of income as other noninterest expense. Amortization expense associated with this identified intangible will approximate \$600,000 to \$975,000 per year for the next ten years.

Pinnacle Financial also recorded other adjustments to the carrying value of Mid-America's assets and liabilities in order to reflect the fair value of those net assets in accordance with U.S. generally accepted accounting principles, including an \$883,000 discount associated with the loan portfolio, a \$2.7 million premium for Mid-America's certificates of deposit and a \$898,000 premium for Mid-America's Federal Home Loan Bank advances. Pinnacle Financial also recorded the corresponding deferred tax asset or liability associated with these adjustments. The discounts and premiums related to financial assets and liabilities are being accreted and amortized into our consolidated statements of income using a method that approximates the level yield over the anticipated lives of the underlying financial assets or liabilities. For the year ended December 31, 2007, the accretion and amortization of the fair value discounts and premiums related to the acquired assets and liabilities increased net interest income by approximately \$528,000. Based on the estimated useful lives of the acquired loans, certificates of deposits, and FHLB advances, Pinnacle Financial expects to recognize increases in net interest income related to the accretion of these purchase accounting adjustments of \$3.9 million in subsequent years.

Statement of Position 03-03, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-03) addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes loans acquired in purchase business combinations and applies to all nongovernmental entities, including not-for-profit organizations. The SOP does not apply to loans originated by the entity. Prior to the merger with Mid-America and due to deteriorating credit conditions during the fourth quarter of 2007, the management of Mid-America identified approximately \$19 million in loans which had weaker credit conditions and charged-off approximately \$8.9 million related to these loans. Subsequently, Pinnacle Financial identified \$10.3 million of loans to which the application of the provisions of SOP 03-03 was required. Pinnacle recorded no further purchase accounting adjustments to these balances as of November 30, 2007. At December 31, 2007, the carrying value of these loans was \$10.3 million.

Pinnacle Financial is in the process of finalizing the allocation of the purchase price to the acquired net assets noted above. Accordingly, the above allocations should be considered preliminary as of December 31, 2007.

The following pro forma income statements assume the merger was consummated on January 1, 2006. The pro forma information does not reflect Pinnacle Financial's results of operations that would have actually occurred had the merger been consummated on such date (dollars in thousands).

Page 65

Table of Contents

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

	Year ended December 31,	
	2007	2006(1)
	(unaudited)	
<i>Pro Forma Income Statements:</i>		
Net interest income	\$ 104,610	\$ 78,454
Provision for loan losses	14,544	5,005
Noninterest income	29,495	21,141
Noninterest expense	98,437	68,897
Net income before taxes	21,124	25,693
Income tax expense	6,908	7,750
Net income	\$ 14,216	\$ 17,943
<i>Pro Forma Per Share Information:</i>		
Basic net income per common share	\$ 0.64	\$ 0.98
Diluted net income per common share	\$ 0.61	\$ 0.92
Weighted average shares outstanding:		
Basic	22,209,642	18,222,247
Diluted	23,365,109	19,483,299

(1) In preparation and as a result of the merger during 2007, Mid-America and Pinnacle Financial incurred significant merger related charges of approximately \$3.9 million in the aggregate, primarily for severance benefits, accelerated vesting of defined compensation agreements,

investment
banker fees, etc.
Including these
charges would
have decreased
pro forma net
income for the
year ended
December 31,
2007 by
\$2.35 million
resulting in net
income of
\$11,872,000 and
a basic and fully
diluted pro
forma net
income per
share of \$0.53
and \$0.51,
respectively.

During the year ended December 31, 2007, Pinnacle Financial incurred merger integration expense related to the merger with Mid-America of \$622,000. These expenses were directly related to the merger, recognized as incurred and reflected on the accompanying consolidated statement of income as merger related expense.

Following the merger with Mid-America, on February 29, 2008, Pinnacle National purchased all of the assets and assumed all of the liabilities of PrimeTrust Bank and simultaneously sold the charter of PrimeTrust Bank to an unaffiliated third party for \$500,000. Pinnacle Financial also merged Bank of the South into Pinnacle National on that date, leaving Pinnacle National as the sole banking subsidiary of Pinnacle Financial. Goodwill was reduced as a result of the sale of the charter, and therefore no gain was recorded.

Note 3. Merger with Cavalry Bancorp, Inc.

On March 15, 2006, Pinnacle Financial consummated its merger with Cavalry Bancorp, Inc. (Cavalry), a one-bank holding company located in Murfreesboro, Tennessee. Pursuant to the merger agreement, Pinnacle acquired all Cavalry common stock via a tax-free exchange whereby Cavalry shareholders received a fixed exchange ratio of 0.95 shares of Pinnacle Financial common stock for each share of Cavalry common stock, or approximately 6.9 million Pinnacle Financial shares. The accompanying consolidated financial statements include the activities of the former Cavalry since March 15, 2006.

In accordance with SFAS No. 141, Accounting for Business Combinations (SFAS No. 141), SFAS No. 142, Goodwill and Intangible Assets (SFAS No. 142) and SFAS No. 147, Acquisition of Certain Financial Institutions (SFAS No. 147), Pinnacle Financial recorded at fair value the following assets and liabilities of Cavalry as of March 15, 2006 (in thousands):

Table of Contents

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

Cash and cash equivalents	\$ 37,420
Investment securities available-for-sale	39,476
Loans, net of an allowance for loan losses of \$5,102	545,598
Goodwill	114,288
Core deposit intangible	13,168
Other assets	42,937
 Total assets acquired	 792,887
 Deposits	 583,992
Federal Home Loan Bank advances	17,767
Other liabilities	18,851
 Total liabilities assumed	 620,610
 Total consideration paid for Cavalry	 \$ 172,277

As noted above, total consideration for Cavalry approximates \$172.3 million of which \$171.1 million was in the form of Pinnacle Financial common shares and options to acquire Pinnacle Financial common shares and \$1.2 million in investment banking fees, attorney's fees and other costs related to the acquisition which have been accounted for as a component of the purchase price. Pinnacle Financial issued 6,856,298 shares of Pinnacle Financial common stock to the former Cavalry shareholders. In accordance with EITF No. 99-12, Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination, the consideration shares were valued at \$24.53 per common share which represents the average closing price of Pinnacle Financial common stock from the two days prior to the merger announcement on September 30, 2005 through the two days after the merger announcement. Aggregate consideration for the common stock issued was approximately \$168.2 million. Additionally, Pinnacle Financial also has assumed the Cavalry Bancorp, Inc. 1999 Stock Incentive Plan (the Cavalry Plan) pursuant to which Pinnacle is obligated to issue 195,551 shares of Pinnacle Financial common stock upon exercise of stock options awarded to certain former Cavalry employees who held outstanding options as of March 15, 2006. All of these options were fully vested prior to the merger announcement date and expire at various dates between 2011 and 2012. The exercise prices for these stock options range between \$10.26 per share and \$13.68 per share. In accordance with SFAS No. 141, Pinnacle Financial has considered the fair value of these options in determining the acquisition cost of Cavalry. The fair value of these vested options approximated \$2.9 million which has been included as a component of the aggregate purchase price.

In accordance with SFAS Nos. 141 and 142, Pinnacle Financial has recognized \$13.2 million as a core deposit intangible. This identified intangible is being amortized over seven years using an accelerated method which anticipates the life of the underlying deposits to which the intangible is attributable. For the year ended December 31, 2007 and 2006, approximately \$2.1 and \$1.8 million, respectively, was recognized in the accompanying consolidated statements of income as other noninterest expense. Amortization expense associated with this identified intangible will approximate \$1.6 million to \$2.0 million per year for the next five years with a lesser amount for the remaining year.

Pinnacle Financial also recorded other adjustments to the carrying value of Cavalry's assets and liabilities in order to reflect the fair value of those net assets in accordance with U.S. generally accepted accounting principles, including a \$4.8 million discount associated with the loan portfolio, a \$2.9 million premium for Cavalry's certificates of deposit and a \$4.6 million premium for Cavalry's land and buildings. Pinnacle Financial also recorded the corresponding

deferred tax asset or liability associated with these adjustments. The discounts and premiums related to financial assets and liabilities are being amortized into our consolidated statements of income using a method that approximates the level yield method over the anticipated lives of the underlying financial assets or liabilities. For the years ended December 31, 2007 and 2006, the accretion of the fair value discounts related to the acquired loans and certificates of deposit increased net interest income by approximately \$2.5 and \$3.7 million, respectively. Based on the estimated useful lives of the acquired loans and deposits, Pinnacle Financial expects to recognize increases in net interest income related to accretion of these purchase accounting adjustments of \$1.5 million in subsequent years.

Page 67

Table of Contents

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

Statement of Position 03-03, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-03) addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes loans acquired in purchase business combinations and applies to all nongovernmental entities, including not-for-profit organizations. The SOP does not apply to loans originated by the entity. At March 15, 2006, Pinnacle Financial identified \$3.9 million in loans to which the application of the provisions of SOP 03-03 was required. The purchase accounting adjustments reflect a reduction in loans and the allowance for loan losses of \$1.0 million related to Cavalry's impaired loans, thus reducing the carrying value of these loans to \$2.9 million as of March 15, 2006. At December 31, 2007, the carrying value of these loans had been reduced to \$679,000 due to cash payments received from the borrowers.

During the year ended December 31, 2006, Pinnacle Financial incurred merger integration expense related to the merger with Cavalry of \$1,636,000. These expenses were directly related to the merger, recognized as incurred and reflected on the accompanying consolidated statement of income as merger related expense.

Note 4. Restricted Cash Balances

Regulation D of the Federal Reserve Act requires that banks maintain reserve balances with the Federal Reserve Bank based principally on the type and amount of their deposits. At its option, Pinnacle Financial maintains additional balances to compensate for clearing and other services. For each of the years ended December 31, 2007 and 2006, the average daily balance maintained at the Federal Reserve was approximately \$611,000.

Note 5. Securities

The amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2007 and 2006 are summarized as follows:

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. Treasury securities	\$	\$	\$	\$
U.S. Government agency securities	69,481,328	199,761	18,526	69,662,563
Mortgage-backed securities	297,909,174	1,237,808	1,441,636	297,705,346
State and municipal securities	127,220,978	208,241	1,523,412	125,905,807
Corporate notes	2,415,782		37,559	2,378,223
	\$497,027,262	\$1,645,810	\$3,021,133	\$495,651,939
Securities held-to-maturity:				
U.S. government agency securities	\$ 17,747,589	\$ 4,436	\$	17,752,025
State and municipal securities	9,285,767	23,175	177,494	9,131,448
	\$ 27,033,356	\$ 27,611	\$ 177,494	\$ 26,883,473

Table of Contents

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

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. Treasury securities	\$	\$	\$	\$
U.S. Government agency securities	38,076,428	9,739	457,321	37,628,846
Mortgage-backed securities	220,397,093	455,203	3,028,241	217,824,055
State and municipal securities	62,215,952	131,412	388,124	61,959,240
Corporate notes	1,887,475		62,188	1,825,287
	\$322,576,948	\$596,354	\$3,935,874	\$319,237,428
Securities held-to-maturity:				
U.S. government agency securities	\$ 17,747,278	\$	\$ 378,528	\$ 17,368,700
State and municipal securities	9,509,648		284,113	9,225,535
	\$ 27,256,876	\$	\$ 662,641	\$ 26,594,235

Pinnacle Financial realized approximately \$16,000 in net gains from the sale of \$770,000 of available-for-sale securities during the year ended December 31, 2007. There were no losses on the sale of securities during the year ended December 31, 2007. Pinnacle Financial had no sales of investment securities in 2006. Pinnacle Financial realized approximately \$114,000 in net gains from the sale of \$6.8 million of available for sale securities during the year ended December 31, 2005.

At December 31, 2007, approximately \$411,271,000 of Pinnacle Financial's available-for-sale portfolio was pledged to secure public funds and other deposits and securities sold under agreements to repurchase.

The amortized cost and fair value of debt securities as of December 31, 2007 by contractual maturity are shown below. Actual maturities may differ from contractual maturities of mortgage-backed securities since the mortgages 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.

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 29,574,165	\$ 29,565,012	\$ 1,578,186	\$ 1,571,404
Due in one year to five years	71,667,981	71,674,128	22,535,568	22,403,338
Due in five years to ten years	52,785,286	52,318,514	2,919,602	2,908,731
Due after ten years	45,090,656	44,388,939		
	\$199,118,088	\$197,946,593	\$27,033,356	\$26,883,473

At December 31, 2007 and 2006, included in securities were the following investments with unrealized losses. The information below classifies these investments according to the term of the unrealized loss of less than twelve months or twelve months or longer:

	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
<i>At December 31, 2007:</i>						
U.S. government agency securities	\$ 13,942,078	\$ 25,198	\$ 2,985,600	\$ 14,400	\$ 16,927,678	\$ 39,598
Mortgage-backed securities	51,240,090	181,098	97,593,453	1,260,537	148,833,543	1,441,635
State and municipal securities	54,467,544	1,193,763	35,481,739	486,071	89,949,283	1,679,834
Corporate notes	527,115	300	1,451,108	37,260	1,978,223	37,560
Total temporarily-impaired securities	\$ 120,176,827	\$ 1,400,359	\$ 137,511,900	\$ 1,798,268	\$ 257,688,727	\$ 3,198,627

Table of Contents

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

At December 31, 2006:

U.S. government agency securities	\$	\$	\$ 47,988,246	\$ 835,849	\$ 47,988,246	\$ 835,849
Mortgage-backed securities	13,959,080	68,965	149,496,521	2,959,276	163,455,601	3,028,241
State and municipal securities	13,975,595	47,071	35,660,379	625,166	49,635,974	672,237
Corporate notes			1,825,286	62,188	1,825,286	62,188
Total temporarily-impaired securities	\$27,934,675	\$ 116,036	\$234,970,432	\$4,482,479	\$262,905,107	\$4,598,515

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of Pinnacle Financial to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value. Because the declines in fair value noted above were attributable to increases in interest rates and not attributable to credit quality and because Pinnacle Financial has the ability and intent to hold all of these investments until a market price recovery or maturity, the impairment of these investments is not deemed to be other-than-temporary.

Note 6. Loans and Allowance for Loan Losses

The composition of loans at December 31, 2007 and 2006 is summarized as follows:

	2007	2006
Commercial real estate Mortgage	\$ 728,200,839	\$ 284,301,650
Consumer real estate Mortgage	562,720,828	299,626,769
Construction and land development	517,399,037	253,097,234
Commercial and industrial	838,160,611	608,529,830
Consumer and other	103,159,374	52,179,341
Total Loans	2,749,640,689	1,497,734,824
Allowance for loan losses	(28,470,207)	(16,117,978)
Loans, net	\$2,721,170,482	\$1,481,616,846

Pinnacle Financial periodically analyzes its commercial loan portfolio to determine if a concentration of credit risk exists to any one or more industries. Pinnacle Financial utilizes broadly accepted industry classification systems in order to classify borrowers into various industry classifications. Pinnacle Financial has a credit exposure (loans outstanding plus unfunded lines of credit) exceeding 25% of Pinnacle National's total risk-based capital to borrowers in the following industries at December 31, 2007 and 2006:

2007 **2006**

Trucking industry	\$ 109,118,000	\$ 89,862,000
Lessors of nonresidential buildings	249,959,000	133,504,000
Lessors of residential buildings	135,413,000	65,791,000
Land subdividers	283,327,000	164,535,000
New housing operative builders	269,744,000	192,373,000
New single family housing construction	104,980,000	18,900

Page 70

Table of Contents

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

Changes in the allowance for loan losses for each of the years in the three-year period ended December 31, 2007 are as follows:

	2007	2006	2005
Balance at beginning of period	\$16,117,978	\$ 7,857,774	\$5,650,014
Charged-off loans	(1,341,890)	(818,467)	(207,647)
Recovery of previously charged-off loans	279,491	244,343	263,441
Allowance from Mid-America acquisition (see note 2)	8,694,787		
Allowance from Cavalry acquisition (see note 3)		5,102,296	
Provision for loan losses	4,719,841	3,732,032	2,151,966
Balance at end of period	\$28,470,207	\$16,117,978	\$7,857,774

At December 31, 2007 and 2006, Pinnacle Financial had certain impaired loans on nonaccruing interest status. The principal balance of these nonaccrual loans amounted to \$19,677,000 and \$7,070,000 at December 31, 2007 and 2006, respectively. In each case, at the date such loans were placed on nonaccrual, Pinnacle Financial reversed all previously accrued interest income against current year earnings. Had these loans been on accruing status, interest income would have been higher by \$485,000, \$283,000 and \$21,000 for each of the years in the three-year period ended December 31, 2007, respectively. For each of years in the three year period ended December 31, 2007, the average balance of nonaccrual loans was \$5,747,000, \$2,735,000 and \$387,000, respectively. As all loans that are deemed impaired were either on nonaccruing interest status during the entire year or were placed on nonaccruing status on the date they were deemed impaired, no interest income has been recognized on any impaired loans during the three year period ended December 31, 2007. At December 31, 2007, Pinnacle Financial allocated approximately \$50,000 of its allowance for loan losses for loans considered to be impaired. At December 31, 2006, Pinnacle Financial did not have an allowance for loans considered to be impaired.

At December 31, 2007, Pinnacle Financial had granted loans and other extensions of credit amounting to approximately \$27,653,000 to certain directors, executive officers, and their related entities, of which \$18,467,000 had been drawn upon. At December 31, 2006, Pinnacle Financial had granted loans and other extensions of credit amounting to approximately \$23,392,000 to certain directors, executive officers, and their related entities, of which approximately \$17,461,000 had been drawn upon. During 2007, \$2,493,000 of new loans were made, \$2,473,000 of loans were purchased through the Mid-America acquisition, and repayments totaled \$1,487,000. During 2006, \$10,640,000 of new loans were made, \$120,000 of loans were purchased through the Cavalry acquisition, and repayments totaled \$860,000. The terms on these loans and extensions are on substantially the same terms customary for other persons for the type of loan involved. None of these loans to certain directors, executive officers, and their related entities, were impaired at December 31, 2007 or 2006.

During the three-year period ended December 31, 2007, Pinnacle Financial sold participations in certain loans to correspondent banks at an interest rate that was less than that of the borrower's rate of interest. In accordance with U.S. generally accepted accounting principles, Pinnacle Financial has reflected a net gain on the sale of these participated loans for each of the years in the three year period ended December 31, 2007 of \$239,000, \$420,000 and \$152,000, respectively, which is attributable to the present value of the future net cash flows of the difference between the interest payments the borrower is projected to pay Pinnacle Financial and the amount of interest that will be owed the correspondent banks based on their participation in the loan. At December 31, 2007, Pinnacle Financial was servicing \$182.5 million of loans for correspondent banks and other entities.

At December 31, 2007 and 2006, Pinnacle Financial had \$11.3 million and \$5.7 million in mortgage loans held-for-sale. During 2007, Pinnacle Financial recognized \$1.6 million in gains on the sale of \$170.0 million in

mortgage loans held-for-sale.

Page 71

Table of Contents

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

Note 7. Premises and Equipment and Lease Commitments

Premises and equipment at December 31, 2007 and 2006 are summarized as follows:

	Range of Useful Lives	2007	2006
Land		\$ 15,365,882	\$ 9,545,667
Buildings	15 to 30 years	41,255,704	19,849,960
Leasehold improvements	15 to 20 years	5,087,210	1,954,028
Furniture and equipment	3 to 15 years	26,910,636	21,350,694
		88,619,432	52,700,349
Accumulated depreciation		(20,233,486)	(16,414,553)
		\$ 68,385,946	\$ 36,285,796

Depreciation and amortization expense was approximately \$3,884,000, \$2,702,000 and \$997,000 for each of the years in the three-year period ended December 31, 2007.

Pinnacle Financial has entered into various operating leases, primarily for office space and branch facilities. Rent expense related to these leases for 2007, 2006 and 2005 totaled \$1,346,000, \$1,161,000 and \$950,000, respectively. At December 31, 2007, the approximate future minimum lease payments due under the aforementioned operating leases for their base term is as follows:

2008	\$ 1,846,000
2009	1,878,000
2010	1,673,000
2011	1,343,000
2012	1,360,000
Thereafter	10,225,651
	\$ 18,326,837

At December 31, 2007, Pinnacle Financial had \$881,000 recorded as a liability for the present value of future lease payments on a facility acquired in its merger with Mid-America that it intends to close in 2008.

Note 8. Deposits

At December 31, 2007, the scheduled maturities of time deposits are as follows:

2008	\$ 1,168,105,188
2009	153,890,291
2010	31,986,218
2011	12,512,723
2012	5,688,898
	\$ 1,372,183,317

Additionally, at December 31, 2007 and 2006, approximately \$1,000,302,000 and \$440,136,000, respectively, of time deposits had been issued in denominations of \$100,000 or greater.

At December 31, 2007, Pinnacle Financial had \$4.9 million of deposit accounts in overdraft status and thus have been reclassified to loans on the accompanying consolidated balance sheet.

Note 9. Federal Home Loan Bank Advances and Other Borrowings

Pinnacle Financial's banking subsidiaries are members of the Federal Home Loan Bank of Cincinnati (FHLB) and as a result, are eligible for advances from the FHLB, pursuant to the terms of various borrowing agreements, which assists the banking subsidiaries in the funding of their home mortgage and commercial real estate loan portfolios. The banking subsidiaries have pledged certain qualifying residential mortgage loans and, pursuant to a

Page 72

Table of Contents

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

blanket lien, all qualifying commercial mortgage loans with an aggregate carrying value of \$257,355,000 as collateral under the borrowing agreements with the FHLB.

At December 31, 2007 and 2006, Pinnacle Financial had received advances from the FHLB totaling \$92,804,000 and \$53,726,000, respectively. At December 31, 2007, the scheduled maturities of these advances and interest rates are as follows:

	Scheduled	Interest Rate
	Maturities	Ranges
2008	\$ 15,554,292	4.4% to 5.2%
2009	15,000,000	5.0%
2010	13,250,485	4.1% to 5.0%
2011-2020	48,999,356	2.3% to 4.4%
	\$ 92,804,133	

Weighted average interest rate 4.3%

At December 31, 2007, Pinnacle National has accommodations which allow it to purchase Federal funds from several of its correspondent banks on an overnight basis at prevailing overnight market rates. These accommodations are subject to various restrictions as to their term and availability, and in most cases, must be repaid within less than a month. At December 31, 2007, the balance owed these correspondents amounted to \$48,862,000 under these arrangements. There were no outstanding balances at December 31, 2006 under these arrangements.

At December 31, 2007, Pinnacle Financial had outstanding a \$9 million obligation to a bank secured by the outstanding common stock of Bank of the South. This obligation bears interest at Prime Rate less 1% and is due December 13, 2008. In February of 2008, Pinnacle Financial entered into a loan agreement related to a \$25 million line of credit with a regional bank. This line of credit will be used to support the growth of Pinnacle National and pay off the aforementioned \$9 million obligation. The \$25 million line of credit has a one year term, contains customary affirmative and negative covenants regarding the operation of our and our subsidiaries' business, a negative pledge on the common stock of Pinnacle National and is priced at 30- day LIBOR plus 125 basis points.

At December 31, 2007, Pinnacle Financial had \$34,897,000 in borrowing availability with the FHLB and other correspondent banks with whom its subsidiary banks have arranged lines of credit.

Note 10. Investments in Affiliated Companies

On December 29, 2003, Pinnacle Financial established PNFP Statutory Trust I; on September 15, 2005 Pinnacle Financial established PNFP Statutory Trust II; on September 7, 2006 Pinnacle Financial established PNFP Statutory Trust III; and on October 31, 2007 PNFP Statutory Trust IV was established (Trust I ; Trust II ; Trust III ; Trust IV or collectively, the Trusts). All are wholly-owned statutory business trusts. Pinnacle Financial is the sole sponsor of the Trusts and acquired each Trust's common securities for \$310,000; \$619,000; \$619,000 and \$928,000, respectively. The Trusts were created for the exclusive purpose of issuing 30-year capital trust preferred securities (Trust Preferred Securities) in the aggregate amount of \$10,000,000 for Trust I; \$20,000,000 for Trust II; \$20,000,000 for Trust III and \$30,000,000 for Trust IV and using the proceeds to acquire junior subordinated debentures (Subordinated Debentures) issued by Pinnacle Financial. The sole assets of the Trusts are the Subordinated Debentures. Pinnacle Financial's aggregate \$2,476,000 and \$1,548,000 investment in the Trusts is included in investments in unconsolidated subsidiaries and other entities in the accompanying consolidated balance sheet at December 31, 2007 and 2006, respectively, and the \$82,476,000 and \$51,548,000 obligation of Pinnacle Financial is reflected as subordinated debt at December 31, 2007 and 2006, respectively.

The Trust I Preferred Securities bear a floating interest rate based on a spread over 3-month LIBOR (8.49% at December 31, 2007) which is set each quarter and mature on December 30, 2033. The Trust II Preferred Securities bear a fixed interest rate of 5.848% per annum through September 30, 2010 at which time the securities will bear a floating rate set each quarter based on a spread over 3-month LIBOR. The Trust II securities mature on September 30, 2035. The Trust III Preferred Securities bear a floating interest rate based on a spread over 3-month LIBOR (6.88% at December 31, 2007) which is set each quarter and mature on September 30, 2036. The Trust IV Preferred Securities bear a floating interest rate based on a spread over 3-month LIBOR (7.76% at December 31, 2007) which is set each quarter and mature on September 30, 2037.

Table of Contents

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

Distributions are payable quarterly. The Trust Preferred Securities are subject to mandatory redemption upon repayment of the Subordinated Debentures at their stated maturity date or their earlier redemption in an amount equal to their liquidation amount plus accumulated and unpaid distributions to the date of redemption. Pinnacle Financial guarantees the payment of distributions and payments for redemption or liquidation of the Trust Preferred Securities to the extent of funds held by the Trusts. Pinnacle Financial's obligations under the Subordinated Debentures together with the guarantee and other back-up obligations, in the aggregate, constitute a full and unconditional guarantee by Pinnacle Financial of the obligations of the Trusts under the Trust Preferred Securities.

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

Subject to approval by the Federal Reserve Bank of Atlanta, the Trust Preferred Securities may be redeemed prior to maturity at our option on or after September 17, 2008 for Trust I; on or after September 30, 2010 for Trust II; September 30, 2011 for Trust III and September 30, 2012 for Trust IV. The Trust Preferred Securities may also be redeemed at any time in whole (but not in part) in the event of unfavorable changes in laws or regulations that result in (1) the Trust becoming subject to federal income tax on income received on the Subordinated Debentures, (2) interest payable by the parent company on the Subordinated Debentures becoming non-deductible for federal tax purposes, (3) the requirement for the Trust to register under the Investment Company Act of 1940, as amended, or (4) loss of the ability to treat the Trust Preferred Securities as Tier I capital under the Federal Reserve capital adequacy guidelines.

At December 31, 2007, the scheduled maturities of these Subordinated Debentures are as follows:

	Scheduled Maturities
2008	\$ 10,310,000
2009	20,619,000
2010	51,547,000
2011-2020	
	\$ 82,476,000

The Trust Preferred Securities for the Trusts qualify as Tier I capital under current regulatory definitions subject to certain limitations. Debt issuance costs associated with Trust I of \$120,000 consisting primarily of underwriting discounts and professional fees are included in other assets in the accompanying consolidated balance sheet. These debt issuance costs are being amortized over ten years using the straight-line method. There were no debt issuance costs associated with Trust II; Trust III or Trust IV.

Combined summary financial information for the Trusts follows (dollars in thousands):

Combined Summary Balance Sheets

	December 31, 2007	December 31, 2006
Asset Investment in subordinated debentures issued by Pinnacle Financial	\$82,476	\$ 51,548

<i>Liabilities</i>	\$	\$
<i>Stockholder's equity</i> Trust preferred securities	80,000	50,000
Common securities (100% owned by Pinnacle Financial)	2,476	1,548
Total stockholder's equity	82,476	51,548
<i>Total liabilities and stockholder's equity</i>	\$82,476	\$ 51,548

Table of Contents

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

Combined Summary Income Statement

	Year ended December 31,		
	2007	2006	2005
Income Interest income from subordinated debentures issued by Pinnacle Financial	\$3,965	\$2,504	\$986
Net Income	\$3,965	\$2,504	\$986

Combined Summary Statement of Stockholder s Equity

	Trust Preferred Securities	Total Common Stock	Retained Earnings	Stockholder s Equity
Balances, December 31, 2004	\$10,000	\$ 310	\$	\$10,310
Net income			986	986
Issuance of trust preferred securities	20,000	619		20,619
Dividends:				
Trust preferred securities			(956)	(956)
Common paid to Pinnacle Financial			(30)	(30)
Balances, December 31, 2005	\$30,000	\$ 929	\$	\$30,929
Net income			2,504	2,504
Issuance of trust preferred securities	20,000	619		20,619
Dividends:				
Trust preferred securities			(2,428)	(2,428)
Common paid to Pinnacle Financial			(76)	(76)
Balances, December 31, 2006	\$50,000	\$1,548	\$	\$51,548
Net income			3,965	3,965
Issuance of trust preferred securities	30,000	928		30,928
Dividends:				
Trust preferred securities			(3,847)	(3,847)
Common paid to Pinnacle Financial			(118)	(118)
Balances, December 31, 2007	\$80,000	\$2,476	\$	\$82,476

Note 11. Income Taxes

FASB Interpretation 48, Accounting for Income Tax Uncertainties (FIN 48) was issued in June 2006 and defines the threshold for recognizing the benefits of tax return positions in the financial statements as more-likely-than-not to be sustained by the taxing authority. FIN 48 also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties and includes guidance concerning accounting for income tax uncertainties in interim periods. Pinnacle Financial adopted the provisions of FIN 48, on January 1, 2007, and determined there was no need to make an adjustment to retained earnings upon adoption of this Interpretation. As of January 1, 2007, Pinnacle Financial had \$700,000 of unrecognized tax benefits

related to Federal income tax matters, of which \$687,000 was utilized during 2007 as uncertainties related to the acquisition of Cavalry were resolved. The remaining \$13,000 was removed during 2007 through an adjustment to goodwill. The reversal of these unrecognized tax benefits did not impact the Company's effective tax rate. As of December 31, 2007, Pinnacle Financial had no unrecognized tax benefits related to Federal or State income tax matters. The Company does not anticipate any material increase or decrease in unrecognized tax benefits during 2008 relative to any tax positions taken prior to December 31, 2007.

Page 75

Table of Contents**PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Pinnacle Financial's unrecognized tax benefits at December 31, 2007 are summarized as follows:

	2007
Balance at beginning of year	\$ 700,000
Increases (decreases) in unrecognized tax benefits relating to current period	
Increases (decreases) in unrecognized tax benefits relating to prior period	(700,000)
Decreases in unrecognized tax benefits relating to settlements with taxing authorities	
Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations	
Balance at end of year	\$

As of December 31, 2007, Pinnacle Financial has accrued no interest and no penalties related to uncertain tax positions. It is Pinnacle Financial's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

Pinnacle Financial and its subsidiaries file a consolidated U.S. Federal and state of Tennessee income tax returns. Pinnacle Financial is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2004 through 2007, and the state of Tennessee for the years ended December 31, 2002 through 2007.

Income tax expense attributable to income from continuing operations for each of the years in the three-year period ended December 31, 2007 consists of the following:

	2007	2006	2005
<i>Current tax expense (benefit):</i>			
Federal	\$6,422,436	\$ 9,073,193	\$3,589,487
State	(407,966)	547,130	178,630
Total current tax expense (benefit)	6,014,470	9,620,323	3,768,117
<i>Deferred tax expense (benefit):</i>			
Federal	3,318,644	(971,418)	(479,072)
State	659,064	(192,918)	(96,683)
Total deferred tax expense (benefit)	3,977,708	(1,164,336)	(575,755)
	\$9,992,178	\$ 8,455,987	\$3,192,362

Pinnacle Financial's income tax expense differs from the amounts computed by applying the Federal income tax statutory rates of 35% in 2007 and 2006 and 34% in 2005 to income before income taxes. A reconciliation of the differences for each of the years in the three-year period ended December 31, 2007 is as follows:

	2007	2006	2005
Income taxes at statutory rate	\$11,561,737	\$9,234,057	\$3,824,194
State tax expense, net of federal tax effect	163,214	230,238	54,085
Federal tax credits	(360,000)	(300,000)	(300,000)

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Tax-exempt securities	(889,716)	(602,100)	(339,900)
Insurance premiums	(304,807)	(91,049)	
Other items	(178,250)	(15,159)	(46,017)
Income tax expense	\$ 9,992,178	\$8,455,987	\$3,192,362

The effective tax rate for all years is impacted by Federal tax credits related to the New Markets Tax Credit program whereby a subsidiary of Pinnacle National has been awarded approximately \$2.3 million in future Federal tax credits which are available through 2010. Tax benefits related to these credits will be recognized for financial

Page 76

Table of Contents

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

reporting purposes in the same periods that the credits are recognized in the Company's income tax returns. The credit that is available for each of the years in the three year period ended December 31, 2007 was \$360,000 in 2007 and \$300,000 in 2006 and 2005. Pinnacle Financial believes that it and its subsidiary have complied with the various regulatory provisions of the New Markets Tax Credit program in each of these years. Also, during 2004, Pinnacle National formed a real estate investment trust which provides Pinnacle Financial with an alternative vehicle for raising capital. Additionally, the ownership structure of this real estate investment trust provides certain state income tax benefits to Pinnacle National and Pinnacle Financial.

The components of deferred income taxes included in other assets in the accompanying consolidated balance sheets at December 31, 2007 and 2006 are as follows:

	2007	2006
<i>Deferred tax assets:</i>		
Loan loss allowance	\$ 11,104,038	\$ 6,654,334
Loans	1,398,865	1,337,983
Securities	485,398	1,251,636
Accrued liability for supplemental retirement agreements	433,049	1,535,688
Deposits	1,156,680	585,568
Restricted stock and stock options	559,888	316,407
FHLB discount	346,402	
Mid-America organization costs	298,169	
Net operating loss carryforward	1,662,445	
Other deferred tax assets	546,491	23,889
Total deferred tax assets	17,991,425	11,705,505
<i>Deferred tax liabilities:</i>		
Depreciation and amortization	5,620,575	1,563,078
Core deposit intangible asset	6,803,830	4,473,076
REIT dividends	266,981	
FHLB dividends	853,829	770,156
Other deferred tax liabilities	838,845	440,642
Total deferred tax liabilities	14,384,060	7,246,952
<i>Net deferred tax assets</i>	\$ 3,607,365	\$ 4,458,553

At December 31, 2007, Pinnacle Financial had approximately \$4.3 million in Federal net operating loss carryforwards that will begin expiring in 2021 if not used. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that Pinnacle Financial will realize the benefit of these deductible differences. However, the amount of the deferred tax asset considered realizable could be reduced in the near term if estimates of future taxable income during the carryforward

period are reduced.

Note 12. Commitments and Contingent Liabilities

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

Standby letters of credit are generally issued on behalf of an applicant (our customer) to a specifically named beneficiary and are the result of a particular business arrangement that exists between the applicant and the beneficiary. Standby letters of credit have fixed expiration dates and are usually for terms of two years or less

Page 77

Table of Contents

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

unless terminated beforehand due to criteria specified in the standby letter of credit. A typical arrangement involves the applicant routinely being indebted to the beneficiary for such items as inventory purchases, insurance, utilities, lease guarantees or other third party commercial transactions. The standby letter of credit would permit the beneficiary to obtain payment from Pinnacle Financial under certain prescribed circumstances. Subsequently, Pinnacle Financial would then seek reimbursement from the applicant pursuant to the terms of the standby letter of credit.

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

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

A summary of Pinnacle Financial's total contractual amount for all off-balance sheet commitments at December 31, 2007 is as follows:

Commitments to extend credit	\$833,893,000
Standby letters of credit	98,305,000

At December 31, 2007, the fair value of Pinnacle Financial's standby letters of credit was \$234,000. This amount represents the unamortized fee associated with these standby letters of credit and is included in the consolidated balance sheet of Pinnacle Financial. This fair value will decrease over time as the existing standby letters of credit approach their expiration dates.

Various legal claims also arise from time to time in the normal course of business. In the opinion of management, the resolution of claims outstanding at December 31, 2007 will not have a material effect on Pinnacle Financial's consolidated financial statements.

Note 13. Common Stock Warrants

Three executives of Pinnacle Financial (the Chairman of the Board, the President and Chief Executive Officer and the Chief Administrative Officer) along with nine members of Pinnacle Financial's Board of Directors and two other organizers of Pinnacle Financial were awarded warrants to acquire 406,000 shares of common stock at \$5.00 per share. During 2006, 11,000 warrants were exercised and, as a result, 395,000 unexercised warrants were outstanding and exercisable at December 31, 2007 and 2006. The outstanding warrants expire August 17, 2010.

Note 14. Salary Deferral Plans and Cavalry Supplemental Executive Retirement Agreements

Pinnacle Financial has 401(k) retirement plans (the 401k Plans) covering all employees who elect to participate, subject to certain eligibility requirements. The Plans allow employees to defer up to 15% of their salary subject to regulatory limitations with Pinnacle Financial matching 100% of the first 4% in Pinnacle Financial stock during 2007 and 2006. In 2005, the match was calculated at 50% of the first 6% deferred in Pinnacle Financial stock. Subsequent to the merger with Cavalry, from March 15, 2006 through December 29, 2006, certain employees participated in the Cavalry Bancorp 401(k) plan. On December 29, 2006, the Cavalry Bancorp 401(k) plan was merged into the Pinnacle Financial 401(k) plan. Subsequent to the merger with Mid-America, from November 30, 2007 through December 31, 2007, certain employees participated in the Bank of the South 401(k) Plan and the PrimeTrust 401(k) Plan. The Bank of the South 401(k) Plan and the PrimeTrust 401(k) were merged into the Pinnacle Financial 401(k) plan on January 1, 2008. Pinnacle Financial's expense associated with the matching component of the plan(s) for each of the years in the three-year period ended December 31, 2007 was approximately

Table of Contents

**PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

\$996,000, \$762,000 and \$259,000, respectively, and is included in the accompanying consolidated statements of income in salaries and employee benefits expense.

Prior to the merger with Pinnacle Financial, Cavalry maintained an employee stock ownership plan for the benefit of certain employees (the Cavalry ESOP). The Cavalry ESOP is a noncontributory retirement plan adopted by Cavalry in 1998 for the benefit of certain employees who meet minimum eligibility requirements. Cavalry Bancorp, Inc. was the Plan Sponsor and with the merger with Pinnacle Financial, Pinnacle Financial became the Plan Sponsor on March 15, 2006. On March 15, 2006, the Cavalry ESOP owned approximately 683,000 common shares of Pinnacle Financial. The Cavalry ESOP had no liabilities as of March 15, 2006, thus all of the Pinnacle Financial shares owned by the Cavalry ESOP were available for distribution to the participants in the Cavalry ESOP pursuant to the terms of the plan. The terms of the Cavalry ESOP did not change as a result of the merger with Pinnacle Financial.

Pursuant to the terms of the Cavalry ESOP, participation in the plan has been frozen as of March 15, 2006 and all participants in the plan were fully vested prior to the merger date. All assets of the plan were allocated to the participants pursuant to the plan's provisions. Thus, Pinnacle Financial is not required to make future contributions to the Cavalry ESOP. Distributions to participants are only made upon the termination from employment from Pinnacle Financial or the participant's death, at which time, distributions will be made to the participant's beneficiaries.

Pinnacle National serves as the Trustee of the Cavalry ESOP. During 2007 and 2006, Pinnacle National assessed the Cavalry ESOP no fees as Trustee. Additionally, Pinnacle National incurred administrative expenses of \$27,000 and \$15,000, respectively, primarily auditing and consulting expenses, to maintain the plan.

Prior to the merger with Pinnacle Financial, Cavalry had adopted nonqualified noncontributory supplemental retirement agreements (the Cavalry SRAs) for certain of the directors and executive officers of Cavalry. Cavalry invested in and, as a result of the Cavalry merger, Pinnacle Financial is the owner of single premium life insurance policies on the life of each participant and is the beneficiary of the policy value. When a participant retires, the accumulated gains on the policy allocated to such participant, if any, will be distributed to the participant in equal installments for 15 years (the Primary Benefit). In addition, any annual gains after the retirement date of the participant will be distributed on an annual basis for the lifetime of the participant (the Secondary Benefit). As a result of the merger with Pinnacle Financial, all participants became fully vested in the Cavalry SRAs. No new participants have been added to the Cavalry SRAs as a result of the merger with Pinnacle Financial.

The Cavalry SRAs also provides the participants with death benefits, which is a percentage of the net death proceeds for the policy, if any, applicable to the participant. The death benefits are not taxable to Pinnacle Financial or the participant's beneficiary.

Pinnacle Financial recognized approximately \$163,000 in compensation expense in each of the years ended December 31, 2007 and 2006 related to the Cavalry SRAs. During 2007, compensation expense related to the Cavalry SRAs was reduced by \$330,000 due to Pinnacle Financial offering a settlement to all participants in the Cavalry SRAs with eleven participants accepting the settlement. Two individuals remain as participants in the Cavalry SRAs. Additionally, Pinnacle Financial incurred approximately \$6,000 and \$5,000 in administrative expenses to maintain the Cavalry SRA during the years ended December 31, 2007 and 2006, respectively. At December 31, 2007 and 2006, included in other liabilities is \$1,104,000 and \$3,915,000, respectively, which represents the net present value of the future obligations owed the participants in the Cavalry SRAs using a discount rate of 5.0% at December 31, 2007 and 5.5% at December 31, 2006.

Note 15. Stock Options, Stock Appreciation Rights and Restricted Shares

Pinnacle Financial has two equity incentive plans under which it has granted stock options to its employees to purchase common stock at or above the fair market value on the date of grant and granted restricted share awards to employees and directors. At December 31, 2007, there were 728,661 shares available for issue under these plans.

During the first quarter of 2006 and in connection with its merger with Cavalry, Pinnacle Financial assumed a third equity incentive plan, the 1999 Cavalry Bancorp, Inc. Stock Option Plan (the Cavalry Plan). All options granted under the Cavalry Plan were fully vested prior to Pinnacle Financial's merger with Cavalry and expire at various dates between January 2011 and June 2012. In connection with the merger, all options to acquire Cavalry common stock

were converted to options to acquire Pinnacle Financial common stock at the 0.95 exchange ratio.

Page 79

Table of Contents

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

The exercise price of the outstanding options under the Cavalry Plan was adjusted using the same exchange ratio. All other terms of the Cavalry options were unchanged. There were 195,551 Pinnacle shares which could be acquired by the participants in the Cavalry Plan at exercise prices that ranged between \$10.26 per share and \$13.68 per share.

On November 30, 2007 and in connection with its merger with Mid-America, Pinnacle Financial assumed several equity incentive plans, including the Mid-America Bancshares, Inc. 2006 Omnibus Equity Incentive Plan (the

Mid-America Plans). All options and stock appreciation rights granted under the Mid-America Plans were fully vested prior to Pinnacle Financial's merger with Mid-America and expire at various dates between June 2011 and July 2017. In connection with the merger, all options and stock appreciation rights to acquire Mid-America common stock were converted to options or stock appreciation rights, as applicable, to acquire Pinnacle Financial common stock at the 0.4655 exchange ratio. The exercise price of the outstanding options and stock appreciation rights under the Mid-America Plans were adjusted using the same exchange ratio with the exercise price also being reduced by \$1.50 per share. All other terms of the Mid-America options and stock appreciation rights were unchanged. There were 487,835 Pinnacle shares which could be acquired by the participants in the Mid-America Plan at exercise prices that ranged between \$6.63 per share and \$21.37 per share. At December 31, 2007, there were 88,435 shares available for issue under the Mid-America Plans.

Common Stock Options and Stock Appreciation Rights

As of December 31, 2007, of the 2,384,000 stock options and 15,000 stock appreciation rights outstanding, 1,426,000 options were granted with the intention to be incentive stock options qualifying under Section 422 of the Internal Revenue Code for favorable tax treatment to the option holder while 973,000 options would be deemed non-qualified stock options or stock appreciation rights and thus not subject to favorable tax treatment to the option holder. All stock options granted under the Pinnacle equity incentive plans vest in equal increments over five years from the date of grant and are exercisable over a period of ten years from the date of grant. All stock options and stock appreciation rights granted under the Cavalry Plan and Mid-America Plans were fully-vested at the date of those mergers.

A summary of the activity within the equity incentive plans during each of the years in the three year period ended December 31, 2007 and information regarding expected vesting, contractual terms remaining, intrinsic values and other matters was as follows:

	Number	Weighted-Average Exercise Price	Weighted-Average Contractual Remaining Term (in years)	Aggregate Intrinsic Value (1) (000 \$)
Outstanding at December 31, 2004	1,068,350	\$ 7.03		
Granted	209,482	23.74		
Exercised	(20,953)	5.93		
Forfeited	(14,486)	14.93		
Outstanding at December 31, 2005	1,242,393	\$ 9.78		
Additional stock option grants resulting from assumption of the Cavalry Plan	195,551	10.80		
Granted	365,519	24.00		
Exercised	(130,168)	9.69		
Forfeited	(14,836)	15.45		

Outstanding at December 31, 2006	1,658,459	\$12.93
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Page 80

Table of Contents

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

	Number	Weighted- Average Exercise Price	Weighted- Average Contractual Remaining Term (in years)	Aggregate Intrinsic Value (1) (000 s)
Additional stock option grants and stock appreciation rights resulting from assumption of the Mid-America Plan	487,835	14.54		
Granted	376,543	30.66		
Stock options exercised	(99,741)	8.68		
Stock appreciation rights exercised(2)	(465)	21.37		
Forfeited	(23,808)	28.00		
Outstanding at December 31, 2007	2,398,823	\$16.84	6.9	\$ 23,784
Outstanding and expected to vest at December 31, 2007	2,357,000	\$16.67	6.9	\$ 23,692
Options exercisable at December 31, 2007	1,533,986	\$11.06	6.2	\$ 20,876

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of Pinnacle Financial common stock of \$25.42 per common share for the 2.1 million options and stock appreciation rights that were in-the-money at December 31, 2007.

- (2) The 465 stock appreciation rights exercised during 2007 settled for 121 shares of Pinnacle Financial common stock.

During the year ended December 31, 2007, 213,000 option awards vested at an average exercise price of \$17.77 and an intrinsic value of approximately \$1.628 million. On January 18, 2008, Pinnacle Financial granted options to purchase 163,000 common shares to certain employees at an exercise price of \$21.51 per share. These options, which were issued as non-qualified stock options, will vest in varying increments over five years beginning one year after the date of the grant and are exercisable over a period of ten years from the date of grant. Pursuant to SAB 110,

Share-Based Payment, Pinnacle Financial will continue to use the simplified method for estimating the expense of stock compensation during 2008.

During each of the years in the three year period ended December 31, 2007, the aggregate intrinsic value of options and stock appreciation rights exercised under our equity incentive plans was \$2,067,000, \$1,694,000 and \$354,000, respectively, determined as of the date of option exercise. As of December 31, 2007, there was approximately \$6.546 million of total unrecognized compensation cost related to unvested stock options granted under our equity incentive plans. That cost is expected to be recognized over a weighted-average period of 3.8 years.

Pinnacle Financial adopted SFAS No. 123(R) using the modified prospective transition method on January 1, 2006. Accordingly, during the years ended December 31, 2007 and 2006, we recorded stock-based compensation expense using the Black-Scholes valuation model for awards granted prior to, but not yet vested, as of January 1, 2006 and for stock-based awards granted after January 1, 2006, based on fair value estimated using the Black-Scholes valuation model. For these awards, we have recognized compensation expense using a straight-line amortization method. As SFAS No. 123(R) requires that stock-based compensation expense be based on awards that are ultimately expected to vest, stock-based compensation for the years ended December 31, 2007 and 2006 has been reduced for estimated forfeitures. The impact on our results of operations (compensation and employee benefits expense) and earnings per share of recording stock-based compensation in accordance with SFAS No. 123(R) (related to stock option awards) for the years ended December 31, 2007 and 2006 was as follows:

	Awards granted with the intention to be classified as incentive stock options	Non-qualified stock option awards	Totals
<i>For the year ended December 31, 2007:</i>			
Stock-based compensation expense	\$481,009	\$ 1,222,432	\$1,703,441
Deferred income tax benefit		479,560	479,560
Impact of stock-based compensation expense after deferred income tax benefit	\$481,009	\$ 742,872	\$1,223,881
Impact on earnings per share:			
Basic weighted average shares outstanding	\$ 0.03	\$ 0.05	\$ 0.08

Fully diluted	weighted average shares outstanding	\$	0.03	\$	0.04	\$	0.07
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Table of Contents

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

	Awards granted with the intention to be classified as incentive stock options	Non-qualified stock option awards	Totals
<i>For the year ended December 31, 2006:</i>			
Stock-based compensation expense	\$586,924	\$ 423,034	\$1,009,958
Deferred income tax benefit		165,956	165,956
Impact of stock-based compensation expense after deferred income tax benefit	\$586,924	\$ 257,078	\$ 844,002
Impact on earnings per share:			
Basic weighted average shares outstanding	\$ 0.04	\$ 0.02	\$ 0.06
Fully diluted weighted average shares outstanding	\$ 0.04	\$ 0.02	\$ 0.06

For purposes of these calculations, the fair value of options granted for each of the years in the three-year period ended December 31, 2007 was estimated using the Black-Scholes option pricing model and the following assumptions:

	2007	2006	2005
Risk free interest rate	4.70%	4.65%	2.57%
Expected life of options	6.50 years	6.50 years	6.50 years
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility	21.1%	23.1%	24.1%
Weighted average fair value	\$10.57	\$10.44	\$7.30

Pinnacle Financial's computation of expected volatility is based on weekly historical volatility since September of 2002. Pinnacle Financial used the simplified method in determining the estimated life of stock option issuances. The risk free interest rate of the award is based on the closing market bid for U.S. Treasury securities corresponding to the expected life of the stock option issuances in effect at the time of grant.

Restricted Shares

Additionally, Pinnacle Financial's 2004 Equity Incentive Plan provides for the granting of restricted share awards and other performance or market-based awards, such as stock appreciation rights. There were no market-based awards or stock appreciation rights outstanding as of December 31, 2007 under the 2004 Equity Incentive Plan. During the three-year period ended December 31, 2007, Pinnacle Financial awarded 39,071 shares, 18,057 shares and 16,366 shares, respectively, of restricted common stock to certain Pinnacle Financial associates. The weighted average fair value of these awards as of the date of grant was \$29.01, \$34.96 and \$24.98 per share, respectively. For 25,296 of the

restricted shares awarded in 2007, the forfeiture restrictions lapse in three separate tranches should Pinnacle Financial achieve certain earnings and soundness targets over the subsequent three-year period, excluding the impact of any merger related expenses in 2006 and thereafter. For the remaining 13,775 restricted shares awarded, the forfeiture restrictions lapse in five tranches on the anniversary date of the grant. Compensation expense associated with the restricted share awards is recognized over the time period that the restrictions associated with the awards lapse based on a graded vesting schedule such that each tranche is amortized separately. Earnings and soundness targets for the 2006 and 2005 fiscal years were achieved and the restrictions related to 12,753 and 6,734 shares, respectively, were released. Earnings and soundness targets for the 2007 fiscal year for the 2005 awards was achieved and 5,452 shares were released. However, the earnings targets for the 2007 fiscal year for the 2006 and 2007 awards were not achieved. As a result, 14,442 shares that were scheduled to be released were not released. These shares have not been forfeited pending determination of the three year cumulative earnings targets which will be determined at the end of the 2008 and 2009 fiscal years. For each year in the three-year period ended December 31, 2007, Pinnacle Financial recognized approximately \$303,000, \$360,000 and \$245,000, respectively, in compensation costs attributable to these awards.

Table of Contents

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

During 2007 and 2006, the Board of Directors of Pinnacle Financial awarded 3,230 and 4,400 shares, respectively, of restricted common stock to the outside members of the board in accordance with their board compensation plan. Each board member received an award of 323 and 400 shares in 2007 and 2006, respectively. The restrictions on these shares lapsed on the one year anniversary date of the award based on each individual board member meeting their attendance goals for the various board and board committee meetings to which each member was scheduled to attend during the fiscal year ended December 31, 2007 and 2006. All board members who had been granted these restricted shares met their attendance goals with the exception of one outside board member who resigned his board seat and forfeited his restricted share award during 2006. The weighted average fair value of all restricted share awards granted to our directors as of the date of grant was \$30.99 per share in 2007 and \$26.14 per share in 2006. For the years ended December 31, 2007 and 2006, Pinnacle Financial recognized approximately \$100,000 and \$105,000, respectively, in compensation costs attributable to these awards.

A summary of activity for restricted share awards for the year ended December 31, 2007 and 2006 follows:

<i>(number of share awards)</i>	<i>Executive Management Awards</i>			<i>Board of Director Awards</i>		
	<i>Vested</i>	<i>Unvested</i>	<i>Totals</i>	<i>Vested</i>	<i>Unvested</i>	<i>Totals</i>
Balances at December 31, 2005	8,016	12,196	20,212			
Granted		18,057	18,057		4,400	4,400
Forfeited					(400)	(400)
Vested	12,753	(12,753)				
Balances at December 31, 2006	20,769	17,500	38,269		4,000	4,000
Granted		39,071	39,071		3,230	3,230
Vested	5,452	(5,452)		4,000	(4,000)	
Balances at December 31, 2007	26,221	51,119	77,340	4,000	3,230	7,230

A summary of compensation expense, net of the impact of income taxes, related to restricted stock awards for the three-year period ended December 31, 2007, follows:

	2007	2006	2005
Stock-based compensation expense	\$396,378	\$465,003	\$244,724
Income tax benefit	155,499	182,421	93,705
Impact of stock-based compensation expense, net of income tax benefit	\$240,879	\$282,582	\$151,019
Impact on earnings per share:			
Basic weighted average shares outstanding	\$ 0.01	\$ 0.02	\$ 0.02
Fully diluted weighted average shares outstanding	\$ 0.01	\$ 0.02	\$ 0.02

Prior to January 1, 2006, Pinnacle Financial applied APB Opinion No. 25 and related interpretations in accounting for its stock option plans. All option grants carry exercise prices equal to or above the fair value of the common stock on the date of grant. Accordingly, no compensation cost had been recognized for such periods. Had compensation cost for Pinnacle Financial's equity incentive plans been determined based on the fair value at the grant dates for awards under the plans consistent with the method prescribed in SFAS No. 123(R), Pinnacle Financial's net income and net income per share would have been adjusted to the pro forma amounts indicated below for the year ended December 31, 2005:

Page 83

Table of Contents

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

	<i>2005</i>
Net income, as reported	\$ 8,055,268
Add: Compensation expense recognized in the accompanying consolidated statement of income, net of related tax effects	167,981
Deduct: Total stock-based compensation expense determined under the fair value based method for all awards, net of related tax effects	(859,350)
Pro forma net income	\$ 7,363,899

Per share information:

	As		
Basic net income	reported	\$	0.96
	Pro forma		0.88
	As		
Diluted net income	reported	\$	0.85
	Pro forma		0.78

Note 16. Derivative Instruments

Financial derivatives are reported at fair value in other assets or other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated as hedges, the gain or loss is recognized in current earnings. Beginning in 2007, Pinnacle Financial entered into interest rate swaps (swaps) to facilitate customer transactions and meet their financing needs. Upon entering into these instruments to meet customer needs, Pinnacle Financial enters into offsetting positions in order to minimize the risk to Pinnacle Financial. These swaps qualify as derivatives, but are not designated as hedging instruments.

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

A summary of Pinnacle Financial's interest rate swaps is included in the following table (in thousands):

	December 31, 2007	
	Notional Amount	Estimated Fair Value
Interest rate swap agreements:		
Pay fixed / receive variable swaps	\$ 25,415	\$ 504
Pay variable / receive fixed swaps	25,415	(504)
Total	\$ 50,830	\$

Note 17. Employment Contracts

Pinnacle Financial has entered into, and subsequently amended, four continuously automatic-renewing three-year employment agreements with four of its senior executives, the President and Chief Executive Officer, the Chairman of the Board, the Chief Administrative Officer and the Chief Financial Officer. These agreements, as amended, will

always have a three-year term unless any of the parties to the agreements gives notice of intent not to renew the agreement. The agreements specify that in certain defined Terminating Events, Pinnacle Financial will be obligated to pay each of the four senior executives a certain amount which is based on their annual salaries and bonuses. These Terminating Events include disability, change of control and other events.

In 2006, Pinnacle Financial entered into an employment agreement with one of its directors who served as the former Chief Executive Officer of Cavalry. This agreement had a term that expired on December 31, 2007.

Page 84

Table of Contents

**PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Pursuant to the employment agreement the director has agreed to a noncompetition and nonsolicitation clause for a period of three years following December 31, 2007.

Pinnacle Financial has business protection agreements with three former executive officers and directors of Mid-America. Under the terms of these agreements, the former executive officer and directors have agreed that they will not actively participate or engage directly or indirectly in a competing business within the Nashville MSA and the counties contiguous to the Nashville MSA until the earlier of (1) voluntary retirement after reaching age 65; (2) any transaction whereby Pinnacle Financial is acquired; or (3) August 31, 2011. In exchange for this agreement, each executive is entitled to receive their future monthly salary while employed or \$10,000 per month after their employment until the occurrence of one of the terminating events.

Note 18. Related Party Transactions

A local public relations company, of which one of Pinnacle Financial's directors is a principal, provides various services for Pinnacle Financial. For each of the years in the three year period ended December 31, 2007, Pinnacle Financial incurred approximately \$309,000, \$195,000 and \$187,000, respectively, in expense for services rendered by this public relations company. Another director is an officer in an insurance firm that serves as an agent in securing insurance in such areas as Pinnacle Financial's property and casualty insurance and other insurance policies.

During 2004, Pinnacle Financial's wholly-owned subsidiary, Pinnacle Credit Enhancement Holdings, Inc. (PCEH), acquired a 24.5% membership interest in Collateral Plus, LLC. Collateral Plus, LLC serves as an intermediary between investors and borrowers in certain financial transactions whereby the borrowers require enhanced collateral in the form of guarantees or letters of credit issued by the investors for the benefit of banks and other financial institutions. An employee of Pinnacle National also owns a 24.5% interest in Collateral Plus, LLC. PCEH's 24.5% ownership of Collateral Plus, LLC resulted in pre-tax earnings of \$274,000 in 2007, \$120,000 in 2005 and \$216,000 in 2004.

Also see Note 6-Loans and Allowance for Loan Losses concerning loans and other extensions of credit to certain directors, officers, and their related entities.

Note 19. Fair Value of Financial Instruments

The following methods and assumptions were used by Pinnacle Financial in estimating its fair value disclosures for financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flow models. Those models are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The use of different methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2007 and 2006. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Cash, Due From Banks and Fed Funds Sold - The carrying amounts of cash, due from banks, and federal funds sold approximate their fair value.

Securities - Estimated fair values for securities available for sale and securities held to maturity are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments.

Loans - For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are equal to carrying values. For fixed rate loans that reprice within one year, fair values are equal to carrying values. For other loans, fair values are estimated using discounted cash flow models, using current market interest rates offered for loans with similar terms to borrowers of similar credit quality. Fair values

Table of Contents

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

for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral.

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

Federal Funds Purchased - The carrying amounts of federal funds purchased approximate their fair value.

Financial derivatives - The carrying amounts of financial derivatives approximate their fair value.

Off-Balance Sheet Instruments - The fair values of Pinnacle Financial's off-balance-sheet financial instruments are based on fees charged to enter into similar agreements. However, commitments to extend credit and standby letters of credit do not represent a significant value to Pinnacle Financial until such commitments are funded. Pinnacle Financial has determined that the fair value of commitments to extend credit is not significant.

The carrying amounts and estimated fair values of Pinnacle Financial's financial instruments at December 31, 2007 and 2006 were as follows (in thousands):

	December 31, 2007		December 31, 2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<i>Financial assets:</i>				
Cash, due from banks, and Federal funds sold	\$ 122,504	\$ 122,504	\$ 92,519	\$ 92,519
Securities available-for-sale	495,652	495,652	319,237	319,237
Securities held-to-maturity	27,033	26,883	27,257	26,594
Mortgage loans held-for-sale	11,252	11,252	5,654	5,654
Loans, net	2,721,170	2,705,663	1,481,617	1,469,642
Derivative assets	504	504		
<i>Financial liabilities:</i>				
Deposits and securities sold under agreements to repurchase	\$ 3,081,390	\$ 3,077,828	\$ 1,763,427	\$ 1,761,178
Federal Home Loan Bank advances	92,804	92,576	53,726	53,481
Federal Funds Purchased	48,862	48,862		
Subordinated debt	82,476	83,293	51,548	52,110
Derivative liabilities	504	504		
	Notional Amount		Notional Amount	
<i>Off-balance sheet instruments:</i>				
Commitments to extend credit	\$ 833,893	\$	\$ 532,383	\$
Standby letters of credit	98,305	234	52,961	159

Note 20. Regulatory Matters

Pinnacle National is subject to restrictions on the payment of dividends to Pinnacle Financial under federal banking laws and the regulations of the Office of the Comptroller of the Currency. Prior to their consolidation with Pinnacle National on February 29, 2008, the two former Mid-America subsidiaries, PrimeTrust Bank and Bank of the South were also subject to restrictions on the payment of dividends to Pinnacle Financial under federal banking laws and the banking regulations of the State of Tennessee. Pinnacle Financial is also subject to limits on payment

Page 86

Table of Contents

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

of dividends to its shareholders by the rules, regulations and policies of federal banking authorities. Pinnacle Financial has not paid any cash dividends since inception, and it does not anticipate that it will consider paying dividends until Pinnacle National generates sufficient capital from operations to support both anticipated asset growth and dividend payments. At December 31, 2007, pursuant to federal banking regulations, Pinnacle National had approximately \$43.9 million of net retained profits from the previous two years available for dividend payments to Pinnacle Financial.

Pinnacle Financial and its banking subsidiaries are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions, by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Pinnacle Financial and its banking subsidiaries 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. Pinnacle Financial and its banking subsidiaries 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 Pinnacle Financial and its banking subsidiaries to maintain minimum amounts and ratios of Total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2007 and December 31, 2006, that Pinnacle Financial and Pinnacle National and as of December 31, 2007, PrimeTrust Bank and Bank of the South met all capital adequacy requirements to which they are subject. To be categorized as well-capitalized, Pinnacle National, PrimeTrust Bank and Bank of the South must maintain minimum Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. Pinnacle Financial and its banking subsidiaries' actual capital amounts and ratios are presented in the following table (dollars in thousands):

	Actual		Minimum Capital Requirement		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>At December 31, 2007</i>						
Total capital to risk weighted assets:						
Pinnacle Financial	\$ 322,146	10.4%	\$ 248,263	8.0%	not applicable	
Pinnacle National	\$ 214,201	10.1%	\$ 169,825	8.0%	\$ 212,282	10.0%
PrimeTrust Bank	\$ 56,822	10.1%	\$ 45,026	8.0%	\$ 56,283	10.0%
Bank of the South	\$ 41,946	10.4%	\$ 32,155	8.0%	\$ 40,193	10.0%
Tier I capital to risk weighted assets:						
Pinnacle Financial	\$ 293,676	9.5%	\$ 124,132	4.0%	not applicable	
Pinnacle National	\$ 194,804	9.2%	\$ 84,913	4.0%	\$ 127,369	6.0%
PrimeTrust Bank	\$ 51,550	9.2%	\$ 22,513	4.0%	\$ 33,770	6.0%
Bank of the South	\$ 38,089	9.5%	\$ 16,077	4.0%	\$ 24,116	6.0%
Tier I capital to average assets (*):						

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Pinnacle Financial	\$ 293,676	11.6%	\$ 101,515	4.0%	not applicable	
Pinnacle National	\$ 194,804	8.5%	\$ 91,273	4.0%	\$ 114,091	5.0%
PrimeTrust Bank	\$ 51,550	8.3%	\$ 24,976	4.0%	\$ 31,220	5.0%
Bank of the South	\$ 38,089	7.6%	\$ 19,908	4.0%	\$ 24,886	5.0%

Page 87

Table of Contents

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

	Actual		Minimum Capital Requirement		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>At December 31, 2006</i>						
Total capital to risk weighted assets:						
Pinnacle Financial	\$202,881	11.8%	\$137,638	8.0%	not applicable	
Pinnacle National	\$175,159	10.2%	\$137,340	8.0%	\$171,676	10.0%
Tier I capital to risk weighted assets:						
Pinnacle Financial	\$186,763	10.9%	\$ 68,819	4.0%	not applicable	
Pinnacle National	\$159,031	9.3%	\$ 68,670	4.0%	\$103,005	6.0%
Tier I capital to average assets (*):						
Pinnacle Financial	\$186,763	9.5%	\$ 79,021	4.0%	not applicable	
Pinnacle National	\$159,031	8.1%	\$ 79,056	4.0%	\$ 98,820	5.0%

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

Note 21. Business Segment Information

Pinnacle Financial has four reporting segments comprised of commercial banking, trust and investment services, mortgage origination and insurance services. Pinnacle Financial's primary segment is commercial banking which consists of commercial loan and deposit services as well as the activities of its branch locations. Pinnacle Financial's segments were changed in 2006 as a result of the acquisition of Cavalry to include trust with Pinnacle Financial's investment services segment and to add a new segment for Insurance Services. Trust and investment services include trust services offered by Pinnacle Financial's banking subsidiaries and all brokerage and investment activities. Mortgage origination is also a separate unit and focuses on the origination of residential mortgage loans for sale to investors in the secondary residential mortgage market. Insurance Services reflect the activities of Pinnacle National's wholly owned subsidiary, Miller and Loughry. Miller and Loughry is a general insurance agency located in Murfreesboro, Tennessee and is licensed to sell various commercial and consumer insurance products. The following tables present financial information for each reportable segment as of December 31, 2007 and 2006 and for each year in the three-year period ended December 31, 2007 (dollars in thousands):

	Commercial	Trust and Investment	Mortgage	Insurance	Total
--	-------------------	---------------------------------	-----------------	------------------	--------------

	Banking	Services	Origination	Services	Company
<i>For the year ended December 31, 2007:</i>					
Net interest income	\$75,541	\$	\$ 171	\$	\$75,712
Provision for loan losses	4,720				4,720
Noninterest income	12,492	4,743	2,792	2,494	22,521
Noninterest expense	52,929	3,484	2,249	1,818	60,480
Income tax expense	8,949	494	280	269	9,992
Net income	\$21,435	\$ 765	\$ 434	\$ 407	\$23,041
<i>For the year ended December 31, 2006:</i>					
Net interest income	\$60,953	\$	\$	\$	\$60,953
Provision for loan losses	3,732				3,732
Noninterest income	8,705	3,316	1,647	2,119	15,787
Noninterest expense	41,930	2,375	976	1,343	46,624
Income tax expense	7,508	369	263	317	8,457
Net income	\$16,488	\$ 572	\$ 408	\$ 459	\$17,927
<i>For the year ended December 31, 2005:</i>					
Net interest income	\$29,038	\$	\$	\$	\$29,038
Provision for loan losses	2,152				2,152
Noninterest income	2,675	1,573	1,146		5,394
Noninterest expense	19,315	1,171	546		21,032
Income tax expense	2,809	154	230		3,193
Net income	\$ 7,437	\$ 248	\$ 370	\$	\$ 8,055

Table of Contents

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

	Commercial Banking	Trust and Investment Services	Mortgage Origination	Insurance Services	Total Company
<i>As of December 31, 2007:</i>					
End of period assets	\$3,773,874	\$ 400	\$15,074	\$4,822	\$3,794,170
<i>As of December 31, 2006:</i>					
End of period assets	\$2,128,105	\$ 402	\$ 9,762	\$3,918	\$2,142,187

At December 31, 2007 and 2006, Pinnacle Financial had approximately \$260.9 million and \$125.7 million, respectively, in goodwill and core deposit intangible assets, all of which had been assigned to the Commercial Banking segment.

Note 22. Parent Company Only Financial Information

The following information presents the condensed balance sheets, statements of income, and cash flows of Pinnacle Financial as of December 31, 2007 and 2006 and for each of the years in the three-year period ended December 31, 2007:

CONDENSED BALANCE SHEETS

	2007	2006
Assets:		
Cash	\$ 9,829,126	\$ 24,803,538
Investments in consolidated subsidiaries	538,364,192	
Investment in unconsolidated subsidiaries:		
PNFP Statutory Trust I	310,000	310,000
PNFP Statutory Trust II	619,000	619,000
PNFP Statutory Trust III	619,000	619,000
PNFP Statutory Trust IV	928,000	
Other investments	1,255,135	
Income taxes receivable from subsidiaries		1,298,299
Current income tax receivable	8,365,160	1,049,604
Other assets	8,125,827	786,846
	\$568,415,440	\$307,755,021
Liabilities and stockholders' equity:		
Income taxes payable to subsidiaries	\$ 8,916,956	\$
Subordinated debt and other borrowings	91,476,000	51,548,000
Other liabilities	1,412,189	190,000
Stockholders' equity	466,610,295	256,017,021
	\$568,415,440	\$307,755,021

CONDENSED STATEMENTS OF INCOME

	2007	2006	2005
Revenues Interest income	\$ 347,787	\$ 267,154	\$ 133,748
Expenses:			
Interest expense subordinated debentures	4,012,243	2,504,033	985,645
Stock-based compensation expense	2,099,819	1,474,960	244,724
Other expense	303,827	245,528	58,772
Loss before income taxes and equity in undistributed income of subsidiaries	(6,068,102)	(3,957,367)	(1,155,393)
Income tax benefit	(2,195,146)	(1,632,738)	(438,270)

Page 89

Table of Contents

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

	2007	2006	2005
Loss before equity in undistributed income of subsidiaries	(3,872,956)	(2,324,629)	(717,123)
Equity in undistributed income of subsidiaries	26,914,311	20,251,662	8,772,391
Net income	\$23,041,355	\$17,927,033	\$8,055,268

CONDENSED STATEMENTS OF CASH FLOWS

	2007	2006	2005
<i>Operating activities:</i>			
Net income	\$ 23,041,355	\$ 17,927,033	\$ 8,055,268
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Stock-based compensation expense	2,099,819	1,474,960	244,724
Increase (decrease) in income tax payable, net	(1,528,956)	(1,921,194)	1,000,352
Decrease (increase) in other assets	77,960	1,118,127	(479,474)
Decrease in other liabilities	495,586	190,000	99,726
Tax benefit from exercise of stock awards			(50,535)
Excess tax benefit from stock compensation	(105,809)	(131,121)	
Deferred tax expense (benefit)	67,501	(232,866)	
Equity in undistributed income of subsidiaries	(26,914,311)	(20,251,662)	(8,772,391)
Net cash provided (used) by operating activities	(2,766,855)	(1,826,723)	97,670
<i>Investing activities</i>			
Investment in unconsolidated subsidiaries	(928,000)	(619,000)	(619,000)
Investment in consolidated subsidiaries:			
Banking subsidiaries	(20,250,000)	(10,000,000)	(15,500,000)
Other subsidiaries		(350,250)	(183,721)
Investments in other entities	(1,189,488)	(65,647)	
Cash and cash equivalents used in merger with Mid-America	(21,557,773)		
Cash and cash equivalents acquired in merger with Cavalry		3,128,116	
Net cash used by investing activities	(43,925,261)	(7,906,781)	(16,302,721)
<i>Financing activities</i>			
Proceeds from issuance of subordinated debt	30,928,000	20,619,000	20,619,000
Exercise of common stock warrants		55,000	
Exercise of common stock options	983,292	1,239,771	174,761
Excess tax benefit from stock compensation arrangements	105,809	131,121	

Costs incurred in connection with registration of common stock issued in mergers	(299,397)	(187,609)	
Net cash provided by financing activities	31,717,704	21,857,283	20,793,761
Net increase (decrease) in cash	(14,974,412)	12,123,779	4,588,710
Cash, beginning of year	24,803,538	12,679,759	8,091,049
Cash, end of year	\$ 9,829,126	\$ 24,803,538	\$ 12,679,759

During 2007, Pinnacle National paid dividends of \$1,250,000 to Pinnacle Financial. No dividends were paid by Pinnacle National during 2005 or 2006.

Note 23. Quarterly Financial Results (unaudited)

A summary of selected consolidated quarterly financial data for each of the years in the three-year period ended December 31, 2007 follows:

Table of Contents

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

<i>(in thousands, except per share data)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2007				
Interest income	\$ 33,739	\$ 35,508	\$ 38,347	\$ 43,338
Net interest income	17,082	17,661	18,960	22,009
Provision for loan losses	788	900	772	2,260
Net income before taxes	8,196	7,828	8,410	8,599
Net income	5,602	5,426	5,772	6,242
<i>Basic net income per share</i>	\$ 0.36	\$ 0.35	\$ 0.37	\$ 0.35
<i>Diluted net income per share</i>	\$ 0.34	\$ 0.33	\$ 0.35	\$ 0.33
2006				
Interest income	\$ 16,811	\$ 28,305	\$ 31,340	\$ 33,241
Net interest income	9,507	16,895	17,159	17,391
Provision for loan losses	387	1,707	587	1,051
Net income before taxes	3,839	6,463	7,942	8,139
Net income	2,612	4,322	5,347	5,646
<i>Basic net income per share</i>	\$ 0.27	\$ 0.28	\$ 0.35	\$ 0.37
<i>Diluted net income per share</i>	\$ 0.24	\$ 0.26	\$ 0.32	\$ 0.34
2005				
Interest income	\$ 9,270	\$ 10,544	\$ 12,379	\$ 14,118
Net interest income	6,503	6,795	7,456	8,287
Provision for loan losses	601	483	366	702
Net income before taxes	2,499	2,762	2,867	3,119
Net income	1,780	1,959	2,078	2,238
<i>Basic net income per share</i>	\$ 0.21	\$ 0.23	\$ 0.25	\$ 0.27
<i>Diluted net income per share</i>	\$ 0.19	\$ 0.21	\$ 0.22	\$ 0.24

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Pinnacle Financial maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed by it in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to Pinnacle Financial's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Pinnacle Financial carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that Pinnacle Financial's disclosure controls and procedures were effective.

Management Report on Internal Control Over Financial Reporting

The report of Pinnacle Financial's management on Pinnacle Financial's internal control over financial reporting is set forth on page 53 of this Annual Report on Form 10-K. The report of Pinnacle Financial's independent registered public accounting firm on Pinnacle Financial's internal control over financial reporting is set forth on page 55 of this Annual Report on Form 10-K.

Changes in Internal Controls

For the three months ended December 31, 2007, Pinnacle Financial continued to expand its internal control system over financial reporting to incorporate procedures specifically related to its merger with Mid-America Bancshares, Inc. We reviewed the financial information obtained from Mid-America from November 30, 2007 through the date such information was integrated into Pinnacle Financial's financial data systems and performed additional procedures with respect to such information in order to determine its accuracy and reliability.

There were no changes in Pinnacle Financial's internal control over financial reporting during Pinnacle Financial's fiscal quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, Pinnacle Financial's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The responses to this Item will be included in Pinnacle Financial's Proxy Statement for the Annual Meeting of Shareholders to be held April 15, 2008, which will be filed on or before March 12, 2008 under the headings Corporate Governance, Proposal #1 Election of Directors, Executive Management Information, Section 16A Beneficial Ownership Reporting Compliance and Security Ownership of Certain Beneficial Owners and Management and are incorporated herein by reference.

Table of Contents**ITEM 11. EXECUTIVE COMPENSATION**

The responses to this Item will be included in Pinnacle Financial's Proxy Statement for the Annual Meeting of Shareholders to be held April 15, 2008, which will be filed on or before March 12, 2008 under the heading, "Executive Compensation" and are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The responses to this Item will be included in Pinnacle Financial's Proxy Statement for the Annual Meeting of Shareholders to be held April 15, 2008, which will be filed on or before March 12, 2008 under the headings, "Security Ownership of Certain Beneficial Owners and Management," and "Executive Compensation," and are incorporated herein by reference.

The following table summarizes information concerning the Company's equity compensation plans at December 31, 2007:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)
Equity compensation plans approved by shareholders:			
2000 Stock Incentive Plan	844,127	\$ 6.19	
2004 Equity Incentive Plan	982,484	\$ 27.73	728,661
1999 Cavalry Bancorp, Inc. Stock Option Plan	98,456	\$ 10.86	
Bank of the South 2001 Stock Option Plan	68,223	\$ 17.06	
PrimeTrust Bank 2001 Statutory-Non-Statutory Stock Option Plan	40,557	\$ 7.52	
PrimeTrust Bank 2005 Statutory-Non-Statutory Stock Option Plan	113,024	\$ 12.89	
Mid-America Bancshares, Inc. 2006 Omnibus Equity Incentive Plan	251,952	\$ 15.65	88,435
Equity compensation plans not approved by shareholders	N/A	N/A	N/A
Total	2,398,823	\$ 16.84	817,096

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The responses to this Item will be included in Pinnacle Financial's Proxy Statement for the Annual Meeting of Shareholders to be held April 15, 2008, which will be filed on or before March 12, 2008 under the headings, "Security Ownership of Certain Beneficial Owners and Management," "Certain Relationships and Related Transactions," "Executive Compensation," and "Corporate Governance-Director Independence" and are incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The responses to this Item will be included in Pinnacle Financial's Proxy Statement for the Annual Meeting of Shareholders to be held April 15, 2008, which will be filed on or before March 12, 2008 under the heading, Independent Registered Public Accounting Firm and are incorporated herein by reference.

Page 93

Table of Contents

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

Exhibit

No.	Description
2.1	Merger Agreement, dated September 30, 2005, by and between Pinnacle Financial Partners, Inc. and Cavalry Bancorp, Inc. (schedules and exhibits to which been omitted pursuant to Items 601(b)(2) of Regulations S-K) (1)
2.2	Agreement and Plan of Merger by and between Pinnacle Financial Partners, Inc. and Mid-America Bancshares, Inc. (schedules and exhibits to which been omitted pursuant to Items 601(b)(2) of Regulations S-K) (2)
3.1	Amended and Restated Charter (3)
3.2	Bylaws (4)
4.1.1	Specimen Common Stock Certificate (5)
4.1.2	See Exhibits 3.1 and 3.2 for provisions of the Charter and Bylaws defining rights of holders of the Common Stock
10.1	Lease Agreement by and between TMP, Inc. (former name of Pinnacle Financial Partners, Inc.) and Commercial Street Associates dated March 16, 2000 (main office) (5)
10.4	Form of Pinnacle Financial Partners, Inc. s Organizers Warrant Agreement (5)
10.7	Employment Agreement dated as of August 1, 2000 by and between Pinnacle National Bank, Pinnacle Financial Partners, Inc. and Robert A. McCabe, Jr. (5) *
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10.18	Agreement for Assignment of Lease by and between Franklin National Bank and TMP, Inc., now known as Pinnacle Financial Partners, Inc., effective July 17, 2000 (5)
10.19	

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Form of Assignment of Lease and Consent of Landlord by Franklin National Bank, Pinnacle Financial Partners, Inc., formerly TMP, Inc., and Stearns Investments, Jack J. Stearns and Edna Stearns, General Partners **(5)**

10.21	Green Hills Office Lease (6)
10.23	Form of Restricted Stock Award Agreement (7)
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10.34	Form of Non-Qualified Stock Option Agreement (13) *
10.35	2006 Annual Cash Incentive Plan (14)*
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10.37	Calvary Bancorp, Inc. 1999 Stock Option Plan (15)*
10.38	Amendment No. 1 to Calvary Bancorp, Inc. 1999 Stock Option Plan (15)*
10.39	Form of Non-Qualified Stock Option Agreement (15)*
10.40	Amendment No. 1 to Pinnacle Financial Partners, Inc. 2000 Stock Incentive Plan (15)*
10.41	Amendment No. 3 to Pinnacle Financial Partners, Inc. 2004 Equity Incentive Plan (15)*
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10.43	Amendment No. 4 to Pinnacle Financial Partners, Inc. 2004 Equity Incentive Plan (17)
10.44	2008 Annual Cash Incentive Plan (18) *

- 10.45 Form of Restricted Stock Award Agreement **(18)** *
- 10.46 2008 Special Cash Incentive Plan **(19)** *
- 10.47 2008 Director and Named Executive Officer Compensation Summary*
- 10.48 Amendment to Employment Agreement by and among Pinnacle National Bank, Pinnacle Financial Partners, Inc. and M. Terry Turner *
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10.53	PrimeTrust Bank 2001 Statutory Nonstatutory Stock Option Plan *
10.54	PrimeTrust Bank 2005 Statutory Nonstatutory Stock Option Plan *
10.55	Mid-America Bancshares, Inc. 2006 Equity Incentive Plan *
21.1	Subsidiaries of Pinnacle Financial Partners, Inc.
23.1	Consent of KPMG LLP
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a)
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a)
32.1	Certification pursuant to 18 USC Section 1350 Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 USC Section 1350 Sarbanes-Oxley Act of 2002
(*)	Management compensatory plan or arrangement
(1)	Registrant hereby incorporates by reference to Registrant's Current Report on Form 8-K filed on October 3, 2005.
(2)	Registrant hereby incorporates by reference to Registrant's Current Report on Form 8-K filed on

August 15, 2007.

- (3) Registrant hereby incorporates by reference to Registrant's Form 10-Q for the quarter ended March 31, 2005.
- (4) Registrant hereby incorporates by reference to Registrant's Current Report on Form 8-K filed on September 21, 2007.
- (5) Registrant hereby incorporates by reference to the Registrant's Registration Statement on Form SB-2, as amended (File No. 333-38018).
- (6) Registrant hereby incorporates by reference to the Registrant's Form 10-KSB for the fiscal year ended December 31, 2000 as filed with the SEC on March 29, 2001.
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reference to
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10-K for the fiscal
year ended
December 31,
2004 as filed with
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February 28,
2005.

(9) Registrant hereby
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reference to
Registrant's
Current Report on
Form 8-K filed on
April 19, 2005.

(10) Registrant hereby
incorporates by
reference to
Registrant's
Current Report on
Form 8-K filed on
January 25, 2007.

(11) Registrant hereby
incorporates by
reference to
Registrant's
Registration
Statement on
Form S-4, as
amended (File
No. 333-129076).

(12) Registrant hereby
incorporates by
reference to
Registrant's
Current Report on
Form 8-K filed on
January 23, 2006.

(13) Registrant hereby
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year ended
December 31,

2005 as filed with
the SEC on
February 24,
2006.

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Form 8-K filed on
January 25, 2008.

(19) Registrant hereby
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reference to
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Current Report on
Form 8-K filed on
January 25, 2008.

Pinnacle Financial is a party to certain agreements entered into in connection with the offering by PNFP Statutory Trust I, PNFP Statutory Trust II, PNFP Statutory Trust III, and PNFP Statutory Trust IV of an aggregate of \$80,000,000 in trust preferred securities, as more fully described in this Annual Report on Form 10-K. In accordance with Item 601(b)(4)(ii) of Regulation SB, and because the total amount of the trust preferred securities is not in excess of 10% of Pinnacle Financial's total assets, Pinnacle Financial has not filed the various documents and agreements associated with the trust preferred securities herewith. Pinnacle Financial has, however, agreed to furnish copies of the various documents and agreements associated with the trust preferred securities to the Securities and Exchange Commission upon request.

Page 95

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PINNACLE FINANCIAL PARTNERS, INC

By: /s/ M. Terry Turner

M. Terry Turner

President and Chief Executive Officer

Date: March 7, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURES	TITLE	DATE
/s/ Robert A. McCabe, Jr. Robert A. McCabe, Jr.	Chairman of the Board	March 7, 2008
/s/ M. Terry Turner M. Terry Turner	Director, President and Chief Executive Officer (Principal Executive Officer)	March 7, 2008
/s/ Harold R. Carpenter Harold R. Carpenter	Chief Financial Officer (Principal Financial and Accounting Officer)	March 7, 2008
/s/ Sue R. Atkinson Sue R. Atkinson	Director	March 7, 2008
/s/ H. Gordon Bone H. Gordon Bone	Director	March 7, 2008
/s/ Gregory L. Burns Gregory L. Burns	Director	March 7, 2008
/s/ James C. Cope James C. Cope	Director	March 7, 2008
/s/ Colleen Conway-Welch Colleen Conway-Welch	Director	March 7, 2008
/s/ Clay T. Jackson	Director	March 7, 2008

Clay T. Jackson

/s/ William H. Huddleston	Director	March 7, 2008
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William H. Huddleston

/s/ Ed C. Loughry, Jr.	Director	March 7, 2008
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Ed C. Loughry, Jr.

/s/ David Major	Director	March 7, 2008
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David Major

/s/ Hal N. Pennington	Director	March 7, 2008
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Hal N. Pennington

/s/ Dale W. Polley	Director	March 7, 2008
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Dale W. Polley

Page 96

Table of Contents

SIGNATURES	TITLE	DATE
/s/ Wayne J. Riley	Director	March 7, 2008
Wayne J. Riley		
/s/ Gary Scott	Director	March 7, 2008
Gary Scott		
/s/ James L. Shaub, II	Director	March 7, 2008
James L. Shaub, II		
/s/ Reese L. Smith, III	Director	March 7, 2008
Reese L. Smith, III		

Page 97

Table of Contents

EXHIBIT INDEX

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2.2	Agreement and Plan of Merger by and between Pinnacle Financial Partners, Inc. and Mid-America Bancshares, Inc. (schedules and exhibits to which been omitted pursuant to Items 601(b)(2) of Regulations S-K) (2)
3.1	Amended and Restated Charter (3)
3.2	Bylaws (4)
4.1.1	Specimen Common Stock Certificate (5)
4.1.2	See Exhibits 3.1 and 3.2 for provisions of the Charter and Bylaws defining rights of holders of the Common Stock
10.1	Lease Agreement by and between TMP, Inc. (former name of Pinnacle Financial Partners, Inc.) and Commercial Street Associates dated March 16, 2000 (main office) (5)
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plan or
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Page 100