FIRST HORIZON NATIONAL CORP
Form 10-Q
August 05, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from __________ to __________

Commission File Number 001-15185

First Horizon National Corporation

(Exact name of registrant as specified in its charter)

TN	**62-0803242**
(State or other jurisdiction incorporation of organization)	**(IRS Employer Identification No.)**
165 MADISON AVENUE MEMPHIS, TENNESSEE	**38103**
(Address of principal executive office)	**(Zip Code)**

(Registrant s telephone number, including area code) (901) 523-4444

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding on June 30, 2015
Common Stock, $.625 par value	234,020,798

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FIRST HORIZON NATIONAL CORPORATION

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PART I.

FINANCIAL INFORMATION

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This financial information reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of the financial condition and results of operations for the interim periods presented.

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CONSOLIDATED CONDENSED STATEMENTS OF CONDITION

	First Horizon National Corporation		
	June 30		December 31
(Dollars in thousands, except per share amounts)(Unaudited)	**2015**	2014	2014
Assets:			
Cash and due from banks	**$ 274,256**	$ 417,108	$ 349,171
Federal funds sold	**77,039**	51,537	63,080
Securities purchased under agreements to resell (Note 15)	**816,991**	624,477	659,154
Total cash and cash equivalents	**1,168,286**	1,093,122	1,071,405
Interest-bearing cash	**344,944**	255,920	1,621,967
Trading securities	**1,133,490**	1,150,280	1,194,391
Loans held-for-sale (a)	**127,196**	358,945	141,285
Securities available-for-sale (Note 3)	**3,648,860**	3,576,542	3,556,613
Securities held-to-maturity (Note 3)	**4,306**	4,279	4,292
Loans, net of unearned income (Note 4) (b)	**16,936,772**	15,795,709	16,230,166
Less: Allowance for loan losses (Note 5)	**221,351**	243,628	232,448
Total net loans	**16,715,421**	15,552,081	15,997,718
Goodwill (Note 6)	**145,932**	141,943	145,932
Other intangible assets, net (Note 6)	**26,922**	20,025	29,518
Fixed income receivables	**91,069**	174,224	42,488
Premises and equipment, net	**269,507**	300,533	302,996
Real estate acquired by foreclosure (c)	**40,268**	57,552	39,922
Derivative assets (Note 14)	**115,230**	162,067	134,088
Other assets	**1,408,336**	1,370,832	1,385,572
Total assets	**$ 25,239,767**	$ 24,218,345	$ 25,668,187
Liabilities and equity:			
Deposits:			
Savings	**$ 7,462,642**	$ 6,317,197	$ 7,455,354
Time deposits	**769,132**	808,822	831,666
Other interest-bearing deposits	**4,675,742**	4,014,071	4,140,991
Certificates of deposit $100,000 and more	**400,021**	503,597	445,272
Interest-bearing	**13,307,537**	11,643,687	12,873,283
Noninterest-bearing	**5,366,936**	4,513,800	5,195,656
Total deposits	**18,674,473**	16,157,487	18,068,939
Federal funds purchased	**556,862**	947,946	1,037,052

Securities sold under agreements to repurchase (Note 15)	**311,760**	475,530	562,214
Trading liabilities	**732,564**	706,119	594,314
Other short-term borrowings	**150,350**	1,073,250	157,218
Term borrowings	**1,557,647**	1,501,209	1,880,105
Fixed income payables	**54,301**	95,299	18,157
Derivative liabilities (Note 14)	**109,815**	138,336	119,239
Other liabilities	**574,090**	507,894	649,359
Total liabilities	**22,721,862**	21,603,070	23,086,597
Equity:			
First Horizon National Corporation Shareholders Equity:			
Preferred stock - Series A, non-cumulative perpetual, no par value, liquidation preference of $100,000 per share - (shares authorized - 1,000; shares issued - 1,000 on June 30, 2015, June 30, 2014 and December 31, 2014)	**95,624**	95,624	95,624
Common stock - $.625 par value (shares authorized - 400,000,000; shares issued - 234,020,798 on June 30, 2015; 237,146,617 on June 30, 2014; and 234,219,663 on December 31, 2014)	**146,263**	148,217	146,387
Capital surplus	**1,371,712**	1,416,012	1,380,809
Undivided profits	**797,123**	782,102	851,585
Accumulated other comprehensive loss, net (Note 8)	**(188,248)**	(122,111)	(188,246)
Total First Horizon National Corporation Shareholders Equity	**2,222,474**	2,319,844	2,286,159
Noncontrolling interest	**295,431**	295,431	295,431
Total equity	**2,517,905**	2,615,275	2,581,590
Total liabilities and equity	**$ 25,239,767**	$ 24,218,345	$ 25,668,187

Certain previously reported amounts have been revised to reflect the retroactive effect of the adoption of ASU 2014-01, Equity Method and Joint Venture: Accounting for Investments in Qualified Affordable Housing Projects. See Note 1 - Financial Information for additional information.

See accompanying notes to consolidated condensed financial statements.

(a) June 30, 2015 includes $20.2 million of held-for-sale consumer mortgage loans secured by residential real estate in process of foreclosure.
(b) June 30, 2015 includes $28.3 million of held-to-maturity consumer mortgage loans secured by residential real estate in process of foreclosure.
(c) June 30, 2015 includes $18.7 million of foreclosed residential real estate.

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	First Horizon National Corporation			
	Three Months Ended June 30		Six Months Ende June 30	
lars and shares in thousands except per share data, unless otherwise noted)(Unaudited)	**2015**	2014	**2015**	201
est income:				
est and fees on loans	**$ 153,283**	$ 142,710	**$ 297,180**	$ 281,
est on investment securities available-for-sale	**23,288**	23,650	**46,122**	46,
est on investment securities held-to-maturity	**66**	66	**132**	
est on loans held-for-sale	**1,350**	3,209	**2,841**	6,
est on trading securities	**8,951**	7,687	**18,052**	15,
est on other earning assets	**92**	37	**771**	
interest income	**187,030**	177,359	**365,098**	350,
est expense:				
est on deposits:				
gs	**2,970**	2,792	**6,277**	5,
deposits	**1,324**	2,486	**2,756**	5,
r interest-bearing deposits	**1,104**	746	**2,061**	1,
ficates of deposit $100,000 and more	**830**	869	**1,712**	1,
est on trading liabilities	**3,770**	4,087	**7,684**	7,
est on short-term borrowings	**726**	1,195	**1,772**	2,
est on term borrowings	**9,666**	8,416	**19,330**	16,
interest expense	**20,390**	20,591	**41,592**	41,
nterest income	**166,640**	156,768	**323,506**	309,
sion for loan losses	**2,000**	5,000	**7,000**	15,
nterest income after provision for loan losses	**164,640**	151,768	**316,506**	294,
nterest income:				
l income	**56,241**	47,680	**117,860**	104,
sit transactions and cash management	**28,430**	27,911	**54,981**	54,
erage, management fees and commissions	**12,456**	12,843	**23,855**	25,
services and investment management	**7,416**	7,309	**14,114**	14,
card income	**5,884**	7,919	**11,070**	12,
-owned life insurance	**3,391**	3,312	**6,853**	9,
r service charges	**3,043**	3,143	**5,891**	5,
ance commissions	**654**	611	**1,250**	1,
gage banking	**376**	8,861	**1,960**	27,
y securities gains/(losses), net	**8**	(1,923)	**284**	3,
ther income and commissions (Note 7)	**12,402**	9,235	**21,872**	14,

noninterest income	**130,301**	126,901	**259,990**	272,
sted gross income after provision for loan losses	**294,941**	278,669	**576,496**	566,
nterest expense:				
oyee compensation, incentives, and benefits (three and six months ended June 30, 2015, de $1.6 million and $3.4 million, respectively, and three and six months ended June 30, , include $1.1 million and $1.7 million, respectively, of expense associated with pension post-retirement plans reclassified from accumulated other comprehensive income)	**127,970**	119,659	**259,414**	238,
pancy	**11,764**	11,944	**23,982**	29,
puter software	**11,340**	11,087	**22,282**	21,
ations services	**10,033**	8,804	**19,370**	17,
pment rentals, depreciation, and maintenance	**7,983**	7,442	**15,203**	15,
essional fees	**5,218**	4,618	**8,924**	10,
C premium expense	**4,952**	1,136	**8,400**	5,
l fees	**4,509**	1,533	**8,060**	10,
ertising and public relations	**4,349**	4,312	**9,082**	10,
munications and courier	**3,801**	3,948	**7,677**	8,
ract employment and outsourcing	**3,337**	5,318	**7,921**	9,
rtization of intangible assets	**1,298**	981	**2,596**	1,
closed real estate	**1,329**	439	**1,198**	1,
ther expense (Note 7)	**20,511**	(18,059)	**200,506**	
noninterest expense	**218,394**	163,162	**594,615**	381,
me/(loss) before income taxes	**76,547**	115,507	**(18,119)**	185,
sion/(benefit) for income taxes (three and six months ended June 30, 2015, include $.6 on and $1.3 million, respectively, and three and six months ended June 30, 2014, include nillion and $.7 million, respectively, of income tax benefit reclassified from accumulated comprehensive income)	**21,590**	33,578	**(671)**	53,
ncome/(loss)	**$ 54,957**	$ 81,929	**$ (17,448)**	$ 131,
ncome attributable to noncontrolling interest	**2,851**	2,859	**5,609**	5,
ncome/(loss) attributable to controlling interest	**$ 52,106**	$ 79,070	**$ (23,057)**	$ 126,
rred stock dividends	**1,550**	1,550	**3,100**	3,
ncome/(loss) available to common shareholders	**$ 50,556**	$ 77,520	**$ (26,157)**	$ 123,
c earnings/(loss) per share (Note 9)	**$ 0.22**	$ 0.33	**$ (0.11)**	$ (
ted earnings/(loss) per share (Note 9)	**$ 0.22**	$ 0.33	**$ (0.11)**	$ 0
ghted average common shares (Note 9)	**232,800**	235,797	**232,808**	235,
ted average common shares (Note 9)	**234,669**	237,250	**232,808**	237,
dividends declared per common share	**$ 0.06**	$ 0.05	**$ 0.12**	$ (

Certain previously reported amounts have been revised to reflect the retroactive effect of the adoption of ASU 2014-01, Equity Method and Joint Venture: Accounting for Investments in Qualified Affordable Housing Projects. See Note 1 - Financial Information for additional information.

See accompanying notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	First Horizon National Corporation			
	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands) (Unaudited)	**2015**	2014	**2015**	2014
Net income/(loss)	**$ 54,957**	$ 81,929	**$ (17,448)**	$ 131,908
Other comprehensive income/(loss), net of tax:				
Unrealized fair value adjustments:				
Securities available-for-sale	**(20,100)**	17,358	**(2,096)**	26,837
Recognized pension and other employee benefit plans net periodic benefit costs	**1,011**	650	**2,094**	1,061
Other comprehensive income/(loss)	**(19,089)**	18,008	**(2)**	27,898
Comprehensive income/(loss)	**35,868**	99,937	**(17,450)**	159,806
Comprehensive income attributable to noncontrolling interest	**2,851**	2,859	**5,609**	5,672
Comprehensive income/(loss) attributable to controlling interest	**$ 33,017**	$ 97,078	**$ (23,059)**	$ 154,134

Certain previously reported amounts have been revised to reflect the retroactive effect of the adoption of ASU 2014-01, Equity Method and Joint Venture: Accounting for Investments in Qualified Affordable Housing Projects. See Note 1-Financial Information for additional information

See accompanying notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

	First Horizon National Corporation					
	2015			2014		
ollars in thousands except per share data)(Unaudited)	Controlling Interest	Noncontrolling Interest	Total	Controlling Interest	Noncontrolling Interest	Total
lance, January 1	**$ 2,286,159**	**$ 295,431**	**$ 2,581,590**	$ 2,192,946	$ 295,431	$ 2,488,37
t income/(loss)	**(23,057)**	**5,609**	**(17,448)**	126,236	5,672	131,90
her comprehensive income/(loss) (a)	**(2)**		**(2)**	27,898		27,89
mprehensive income/(loss)	**(23,059)**	**5,609**	**(17,450)**	154,134	5,672	159,80
sh dividends declared:						
eferred stock ($3,100 per share for the six months ended ne 30, 2015 and 2014)	**(3,100)**		**(3,100)**	(3,100)		(3,10
mmon stock ($.12 and $.10 per share for the six onths ended June 30, 2015 and 2014, respectively)	**(28,305)**		**(28,305)**	(23,875)		(23,87
mmon stock repurchased (b)	**(20,031)**		**(20,031)**	(4,871)		(4,87
mmon stock issued for:						
ock options and restricted stock - equity awards	**4,427**		**4,427**	620		62
ock-based compensation expense	**6,474**		**6,474**	5,687		5,68
vidends declared - noncontrolling interest of subsidiary eferred stock		**(5,609)**	**(5,609)**		(5,672)	(5,67
x benefit/(benefit reversal) - stock based compensation pense	**(91)**		**(91)**	(1,705)		(1,70
her changes in equity				8		
lance, June 30	**$ 2,222,474**	**$ 295,431**	**$ 2,517,905**	$ 2,319,844	$ 295,431	$ 2,615,27

Certain previously reported amounts have been revised to reflect the retroactive effect of the adoption of ASU 2014-01, Equity Method and Joint Venture: Accounting for Investments in Qualified Affordable Housing Projects. See Note 1 Financial Information for additional information.

See accompanying notes to consolidated condensed financial statements.

(a) Due to the nature of the preferred stock issued by FHN and its subsidiaries, all components of Other comprehensive income/(loss) have been attributed solely to FHN as the controlling interest holder.
(b) 2015 includes $15.8 million repurchased under the share repurchase program launched in January 2014.

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	First Horizon National Corporation	
	Six Months Ended June 30	
(Dollars in thousands)(Unaudited)	**2015**	2014
Operating Activities		
Net income/(loss)	**$** (17,448)	$ 131,908
Adjustments to reconcile net income/(loss) to net cash provided/(used) by operating activities:		
Provision for loan losses	7,000	15,000
Provision/(benefit) for deferred income taxes	(1,592)	7,578
Depreciation and amortization of premises and equipment	18,229	18,016
Amortization of intangible assets	2,596	1,963
Net other amortization and accretion	11,731	8,003
Net (increase)/decrease in derivatives	(615)	559
Fair value adjustment to foreclosed real estate	1,660	1,391
Litigation and regulatory matters	162,500	490
Stock-based compensation expense	6,474	5,687
Tax benefit/(benefit reversal) - stock based compensation expense	91	1,705
Equity securities (gains)/losses, net	(284)	(3,734)
(Gains)/losses on extinguishment of debt		4,350
Loss on deconsolidation of securitization trusts		1,960
Net (gains)/losses on sale/disposal of fixed assets	(2,872)	2,114
Proceeds from sale of mortgage servicing rights		69,919
Loans held-for-sale:		
Purchases	(1,178)	(4,582)
Gross proceeds from settlements and sales	15,561	22,071
Fair value adjustments and other	(294)	(6,282)
Net (increase)/decrease in:		
Trading securities	59,890	(347,692)
Fixed income receivables	(48,581)	(128,969)
Interest receivable	9,955	2,072
Other assets	(48,727)	321,987
Net increase/(decrease) in:		
Trading liabilities	138,250	337,771
Fixed income payables	36,144	74,126
Interest payable	(7,613)	(608)
Other liabilities	(229,785)	(146,228)
Total adjustments	128,540	258,667
Net cash provided/(used) by operating activities	111,092	390,575
Investing Activities		
Available-for-sale securities:		
Sales	284	4,555

Maturities	327,315	310,067
Purchases	(427,717)	(449,425)
Premises and equipment:		
Sales	40,369	32
Purchases	(15,751)	(15,451)
Net (increase)/decrease in:		
Loans	(722,062)	(426,934)
Interests retained from securitizations classified as trading securities	1,011	689
Interest-bearing cash	1,277,023	474,377
Net cash provided/(used) by investing activities	480,472	(102,090)
Financing Activities		
Common stock:		
Stock options exercised	4,715	624
Cash dividends paid	(26,020)	(23,878)
Repurchase of shares (a)	(20,031)	(4,871)
Tax benefit/(benefit reversal) - stock based compensation expense	(91)	(1,705)
Cash dividends paid - preferred stock - noncontrolling interest	(5,703)	(5,687)
Cash dividends paid - Series A preferred stock	(3,100)	(3,100)
Term borrowings:		
Payments/maturities	(312,808)	(13,615)
Increases in restricted and secured term borrowings		2,089
Net cash paid to deconsolidate/collapse securitization trusts		(225,151)
Net increase/(decrease) in:		
Deposits	605,867	(578,136)
Short-term borrowings	(737,512)	830,158
Net cash provided/(used) by financing activities	(494,683)	(23,272)
Net increase/(decrease) in cash and cash equivalents	96,881	265,213
Cash and cash equivalents at beginning of period	$ 1,071,405	$ 827,909
Cash and cash equivalents at end of period	1,168,286	1,093,122
Supplemental Disclosures		
Total interest paid	$ 48,734	$ 41,626
Total taxes paid	14,859	31,950
Total taxes refunded	215	1,880
Transfer from loans to other real estate owned	8,293	11,505

Certain previously reported amounts have been revised to reflect the retroactive effect of the adoption of ASU 2014-01, Equity Method and Joint Ventures: Accounting for Investments in Qualified Affordable Housing Projects. See Note 1 Financial Information for additional information.

See accompanying notes to consolidated condensed financial statements.

(a) 2015 includes $15.8 million repurchased under the share repurchase program launched in January 2014.

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Notes to the Consolidated Condensed Financial Statements (Unaudited)

Note 1 Financial Information

Basis of Accounting. The unaudited interim consolidated condensed financial statements of First Horizon National Corporation (FHN), including its subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States of America and follow general practices within the industries in which it operates. This preparation requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions are based on information available as of the date of the financial statements and could differ from actual results. In the opinion of management, all necessary adjustments have been made for a fair presentation of financial position and results of operations for the periods presented. These adjustments are of a normal recurring nature unless otherwise disclosed in this Quarterly Report on Form 10-Q. The operating results for the interim 2015 periods are not necessarily indicative of the results that may be expected going forward. For further information, refer to the audited consolidated financial statements which were included in the 2014 Annual Report to shareholders, and which were filed as part of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2014.

Summary of Accounting Changes. In January 2014, the FASB issued ASU 2014-01, Equity Method and Joint Ventures: Accounting for Investments in Qualified Affordable Housing Projects. ASU 2014-01 permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using a proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense/(benefit). A reporting entity should evaluate whether the conditions have been met to apply the proportional amortization method to an investment in a qualified affordable housing project through a limited liability entity at the time of initial investment on the basis of facts and circumstances that exist at that time. A reporting entity should reevaluate the conditions upon the occurrence of certain specified events. An investment in a qualified affordable housing project through a limited liability entity should be tested for impairment when there are events or changes in circumstances indicating that it is more likely than not that the carrying amount of the investment will not be realized. For those investments in qualified affordable housing projects not accounted for using the proportional amortization method, the investment should be accounted for as an equity method investment or a cost method investment. The decision to apply the proportional amortization method of accounting is an accounting policy decision that should be applied consistently to all qualifying affordable housing project investments rather than a decision to be applied to individual investments. The provisions of ASU 2014-01 are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014.

Effective January 1, 2015, FHN retroactively adopted the requirements of ASU 2014-01 with an election to use the proportional amortization method for all qualifying investments. FHN believes the proportional amortization method better represents the economics of its qualified affordable housing investments and provides users with a better understanding of the returns from such investments when compared to the equity method. FHN will continue to use the equity method for non-qualifying affordable housing investments and its other tax credit investments. The cumulative effects of the retrospective application of the change in amortization method are summarized in the tables below.

	As of June 30	As of December 31	
(Dollars in thousands, except per share amounts)	2014	2014	2013

Increase/(decrease) to previously reported Consolidated Statements of Condition amounts			
Other assets	$ (4,405)	$ (4,700)	(5,340)
Other liabilities	6,471	4,678	7,034
Undivided profits	(10,876)	(9,378)	(12,374)

	Three Months Ended June 30	Six Months Ended June 30	For the Year Ended December 31		
	2014	2014	2014	2013	2012
Increase/(decrease) to previously reported Consolidated Statements of Income amounts					
Other expense	$ (2,170)	$ (4,340)	$ (8,680)	$ (10,082)	$ (14,177)
Provision/(benefit) for income taxes	1,421	2,842	5,684	12,780	13,234
Income/(loss) available to common shareholders	749	1,498	2,996	(2,698)	943
Diluted earnings/(loss) per share	0.01	0.01	0.01	(0.01)	

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Note 1 Financial Information (Continued)

Investment balances, including all legally binding commitments to fund future investments, are included in Other assets on the Consolidated Condensed Statements of Condition. A liability is recognized in Other liabilities on the Consolidated Condensed Statement of Condition for all legally binding unfunded commitments to fund qualifying LIHTC investments. Amortization and other write-downs of qualifying LIHTC investments are presented on a net basis as a component of the Provision/(benefit) for income taxes on the Consolidated Condensed Statement of Income, while amortization and write-downs of non-qualifying LIHTC and other tax credit investments are recorded in Other expense. The income tax credits and deductions are recorded as a reduction of income tax expense and a reduction of federal income taxes payable.

In January 2014, the FASB issued ASU 2014-04, Receivables Troubled Debt Restructurings by Creditors: Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. ASU 2014-04 clarifies that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU 2014-04 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity is required to adopt ASU 2014-04 using either a modified retrospective transition method or a prospective transition method. Under the modified retrospective transition method, an entity should apply ASU 2014-04 by means of a cumulative-effect adjustment to residential consumer mortgage loans and foreclosed residential real estate properties existing as of the beginning of the annual period for which the amendments are effective. FHN adopted the requirements of ASU 2014-04 prospectively and this did not have a material effect on FHN s statements of condition, results of operation or cash flows.

In August 2014, the FASB issued ASU 2014-14, Classification of Certain Government-Guaranteed Mortgage Loan upon Foreclosure. ASU 2014-14 requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if 1) the loan has a government guarantee that is not separable from the loan before foreclosure, 2) at the time of foreclosure the creditor has the intent to convey the real estate to the guarantor and make a recoverable claim on the guarantee and 3) at the time of foreclosure any amount of the claim that is based on the fair value of the real estate is fixed. For qualifying foreclosures, the amount of the receivable recognized should be measured based on the amount of the loan balance expected to be recovered from the guarantor. ASU 2014-14 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014 and may be adopted through either a prospective only approach or through a reclassification from other real estate owned to other receivable on the effective date. FHN adopted the requirements for ASU 2014-14 prospectively for transactions occurring after its effective date and this did not have a material effect on FHN s statement of condition, results of operation or cash flows.

In June 2014, the FASB issued ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. ASU 2014-11 makes two changes to accounting for repurchase agreements. First, it requires secured borrowing accounting for repurchase-to-maturity transactions. Second, it requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. ASU 2014-11 also requires additional disclosures for repurchase transactions that are recognized as secured borrowings, including disaggregation by class of collateral, the remaining contractual tenor of the arrangements and the risks inherent in the agreements. Adoption of ASU 2014-11 will only affect FHN s disclosures as it does not execute repurchase-to maturity or repurchase financing transactions. These disclosure revisions are effective for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. FHN revised its disclosures upon adoption of ASU 2014-11.

Accounting Changes Issued but Not Currently Effective

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 does not change revenue recognition for financial instruments. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This is accomplished through a five-step recognition framework involving 1) the identification of contracts with customers, 2) identification of performance obligations, 3) determination of the transaction price, 4) allocation of the transaction price to the performance obligations and 5) recognition of revenue as performance obligations are satisfied. Additionally, qualitative and quantitative information is required for disclosure regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The effective date of ASU 2014-09 has been deferred to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application as of the original effective date of annual reporting periods beginning after December 15, 2016, and associated interim periods is permitted. Transition to the new requirements may be made by retroactively revising prior financial statements (with certain practical expedients permitted) or by a cumulative effect through retained earnings. If the latter option is selected, additional disclosures are required for comparability. FHN is evaluating the effects of ASU 2014-09 on its revenue recognition practices.

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Note 1 Financial Information (Continued)

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition in determining expense recognition for the award. Thus, compensation cost is recognized over the requisite service period based on the probability of achievement of the performance condition. Expense is adjusted after the requisite service period for changes in the probability of achievement. ASU 2014-12 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The adoption of ASU 2014-12 will have no effect on FHN.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern. ASU 2014-15 requires an entity s management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern within one year after the date that the financial statements are issued. If such events or conditions exist, additional disclosures are required and management should evaluate whether its plans sufficiently alleviate the substantial doubt. ASU 2014-15 is effective for the annual period ending after December 15, 2016 and all interim and annual periods thereafter. The provisions of ASU 2014-15 are not anticipated to affect FHN.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis. ASU 2015-02 revises current consolidation guidance to modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities. ASU 2015-02 also eliminates the presumption that a general partner should consolidate a limited partnership, revises the consolidation analysis for reporting entities that have fee arrangements and related party relationships with variable interest entities, and provides a scope exception for entities with interests in registered money market funds. ASU 2015-02 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. FHN has evaluated the provisions of ASU 2015-02 on its consolidation assessments and there will not be a significant effect upon adoption.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented as a direct reduction from the carrying value of that debt liability, consistent with debt discounts. ASU 2015-03 requires application on a retrospective basis, with prior periods revised to reflect the effects of adoption. ASU 2015-03 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Consistent with current requirements, FHN currently classifies debt issuance costs within Other assets in the Consolidated Condensed Statements of Condition. ASU 2015-03 will have no effect on the recognition of interest expense.

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Note 2 Acquisitions and Divestitures

On October 17, 2014, First Tennessee Bank National Association (FTBNA) purchased thirteen bank branches in Middle and East Tennessee. The fair value of the acquired assets totaled $437.6 million, including $413.4 million in cash, $7.5 million in fixed assets, and $15.7 million of goodwill and intangible assets. FTBNA also assumed $437.2 million of deposits associated with these branches. FTBNA paid a deposit premium of 3.32 percent and acquired an immaterial amount of loans as part of the transaction. In relation to the branch acquisition FHN recorded $4.0 million in goodwill, representing the excess of the estimated fair value of liabilities assumed over the estimated fair value of the assets acquired (refer to Note 6 Intangible Assets for additional information), all of which is expected to be deductible for tax purposes. FHN s operating results for 2015 and 2014 include the impact of branch activity subsequent to the October 17, 2014 closing date.

On October 21, 2014, FHN entered into an agreement with TrustAtlantic Financial Corporation (TrustAtlantic Financial) by which TrustAtlantic Financial will merge into a subsidiary of FHN. TrustAtlantic Financial owns all the capital stock of TrustAtlantic Bank. Trust Atlantic Financial and TrustAtlantic Bank are headquartered in Raleigh, North Carolina. TrustAtlantic Bank has five branches located in North Carolina in the communities of Raleigh, Cary and Greenville. On December 16, 2014 the parties entered into an amendment to the merger agreement. The transaction is expected to close in the second half of 2015, subject to regulatory approvals and other customary conditions to closing.

In addition to the transactions mentioned above, FHN acquires or divests assets from time to time in transactions that are considered business combinations or divestitures but are not material to FHN individually or in the aggregate.

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Note 3 Investment Securities

The following tables summarize FHN s investment securities on June 30, 2015 and 2014:

	June 30, 2015			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale (AFS):				
U.S. treasuries	$ 100	$	$	$ 100
Government agency issued mortgage-backed securities (MBS)	804,841	29,068	(3,269)	830,640
Government agency issued collateralized mortgage obligations (CMO)	2,624,151	20,836	(19,701)	2,625,286
Other U.S. government agencies	1,539	21		1,560
States and municipalities	9,455			9,455
Equity and other (a)	182,059		(240)	181,819
Total securities available-for-sale (b)	**$ 3,622,145**	**$ 49,925**	**$ (23,210)**	**$ 3,648,860**
Securities held-to-maturity (HTM):				
States and municipalities	$ 4,306	$ 1,050	$	$ 5,356
Total securities held-to-maturity	**$ 4,306**	**$ 1,050**	**$**	**$ 5,356**

(a) Includes restricted investments in FHLB-Cincinnati stock of $87.9 million and FRB stock of $65.8 million. The remainder is money market and cost method investments.
(b) Includes $3.2 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.

	June 30, 2014			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. treasuries	$ 39,995	$ 4	$	$ 39,999
Government agency issued MBS	724,785	39,679	(1,622)	762,842
Government agency issued CMO	2,582,242	21,211	(34,065)	2,569,388
Other U.S. government agencies	1,973	88		2,061
States and municipalities	15,155			15,155
Equity and other (a)	187,106	17	(26)	187,097
Total securities available-for-sale (b)	$ 3,551,256	$ 60,999	$ (35,713)	$ 3,576,542

Securities held-to-maturity:								
States and municipalities	$	4,279	$	1,277	$		$	5,556
Total securities held-to-maturity	$	4,279	$	1,277	$		$	5,556

(a) Includes restricted investments in FHLB-Cincinnati stock of $87.9 million and FRB stock of $66.0 million. The remainder is money market, venture capital, and cost method investments.

(b) Includes $3.4 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.

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Note 3 Investment Securities (Continued)

The amortized cost and fair value by contractual maturity for the available-for-sale and held-to-maturity securities portfolios on June 30, 2015, are provided below:

	Held-to-Maturity		Available-for-Sale	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$	$	$ 1,539	$ 1,560
After 1 year; within 5 years			1,600	1,600
After 5 years; within 10 years				
After 10 years	4,306	5,356	7,955	7,955
Subtotal	4,306	5,356	11,094	11,115
Government agency issued MBS and CMO (a)			3,428,992	3,455,926
Equity and other			182,059	181,819
Total	**$ 4,306**	**$ 5,356**	**$ 3,622,145**	**$ 3,648,860**

(a) Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The table below provides information on gross gains and gross losses from investment securities for the three and six months ended June 30:

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands)	**2015**	2014	**2015**	2014
Gross gains on sales of securities	**$ 8**	$ 77	**$ 284**	$ 5,734
Gross losses on sales of securities				
Net gain/(loss) on sales of securities (a)	**8**	77	**284**	5,734
Venture capital investments (b)		(2,000)		(2,000)
Total securities gain/(loss), net	**$ 8**	$ (1,923)	**$ 284**	$ 3,734

(a)

Proceeds from sales for the three months ended June 30, 2015 and 2014 were not material. Proceeds for the six months ended June 30, 2015 were $.3 million. Proceeds for the six months ended June 30, 2014 were $5.7 million, inclusive of $1.4 million of equity securities.

(b) Includes write-offs and/or unrealized fair value adjustments related to venture capital investments.

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Note 3 Investment Securities (Continued)

The following tables provide information on investments within the available-for-sale portfolio that had unrealized losses as of June 30, 2015 and 2014:

	As of June 30, 2015					
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government agency issued CMO	$ 845,534	$ (7,734)	$ 450,079	$ (11,967)	$ 1,295,613	$ (19,701)
Government agency issued MBS	233,521	(2,485)	33,582	(784)	267,103	(3,269)
Total debt securities	1,079,055	(10,219)	483,661	(12,751)	1,562,716	(22,970)
Equity			851	(240)	851	(240)
Total temporarily impaired securities	$ 1,079,055	$ (10,219)	$ 484,512	$ (12,991)	$ 1,563,567	$ (23,210)

	As of June 30, 2014					
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government agency issued CMO	$ 437,212	$ (2,276)	$ 1,004,964	$ (31,789)	$ 1,442,176	$ (34,065)
Government agency issued MBS	34,041	(83)	108,491	(1,539)	142,532	(1,622)
Total debt securities	471,253	(2,359)	1,113,455	(33,328)	1,584,708	(35,687)
Equity	43	(26)			43	(26)
Total temporarily impaired securities	$ 471,296	$ (2,385)	$ 1,113,455	$ (33,328)	$ 1,584,751	$ (35,713)

FHN has reviewed investment securities that were in unrealized loss positions in accordance with its accounting policy for other than temporary impairment (OTTI) and does not consider them other-than-temporarily impaired. For debt securities with unrealized losses, FHN does not intend to sell them and it is more-likely-than-not that FHN will not be required to sell them prior to recovery. The decline in value is primarily attributable to changes in interest rates and not credit losses. For equity securities, FHN has both the ability and intent to hold these securities for the time necessary to recover the amortized cost.

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Note 4 Loans

The following table provides the balance of loans by portfolio segment as of June 30, 2015 and 2014, and December, 31 2014:

	June 30		December 31
(Dollars in thousands)	**2015**	2014	2014
Commercial:			
Commercial, financial, and industrial	**$ 9,832,563**	$ 8,402,836	$ 9,007,286
Commercial real estate	**1,400,715**	1,231,513	1,277,717
Retail:			
Consumer real estate (a)	**4,870,271**	5,218,930	5,048,071
Permanent mortgage	**487,679**	594,001	538,961
Credit card & other	**345,544**	348,429	358,131
Loans, net of unearned income	**$ 16,936,772**	$ 15,795,709	$ 16,230,166
Allowance for loan losses	**221,351**	243,628	232,448
Total net loans	**$ 16,715,421**	$ 15,552,081	$ 15,997,718

(a) Balances as of June 30, 2015 and 2014, and December 31, 2014 include $66.4 million, $84.4 million, and $76.8 million of restricted real estate loans, respectively. See Note 13 - Variable Interest Entities for additional information.

COMPONENTS OF THE LOAN PORTFOLIO

The loan portfolio is disaggregated into segments and then further disaggregated into classes for certain disclosures. GAAP defines a portfolio segment as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. A class is generally determined based on the initial measurement attribute (i.e., amortized cost or purchased credit-impaired), risk characteristics of the loan, and FHN s method for monitoring and assessing credit risk. Commercial loan portfolio segments include commercial, financial and industrial (C&I) and commercial real estate (CRE). Commercial classes within C&I include general C&I, loans to mortgage companies, the trust preferred loans (TRUPS) (i.e. long-term unsecured loans to bank and insurance - related businesses) portfolio and PCI loans. Loans to mortgage companies includes commercial lines of credit to qualified mortgage companies primarily for the temporary warehousing of eligible mortgage loans prior to the borrower s sale of those mortgage loans to third party investors. Commercial classes within CRE include income CRE, residential CRE and PCI loans. Retail loan portfolio segments include consumer real estate, permanent mortgage, and the credit card and other portfolio. Retail classes include HELOC, real estate (R/E) installment and PCI loans within the consumer real estate segment, permanent mortgage (which is both a segment and a class), and credit card and other.

Concentrations

FHN has a concentration of residential real estate loans (32 percent of total loans), the majority of which is in the consumer real estate segment (29 percent of total loans). Loans to finance and insurance companies total $2.1 billion (21 percent of the C&I portfolio, or 12 percent of the total loans). FHN had loans to mortgage companies totaling $1.8

billion (18 percent of the C&I segment, or 11 percent of total loans) as of June 30, 2015. As a result, 39 percent of the C&I segment was sensitive to impacts on the financial services industry.

Purchased Credit Impaired Loans

The following table presents a rollforward of the accretable yield for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands)	**2015**	2014	**2015**	2014
Balance, beginning of period	**$ 10,468**	$ 15,828	**$ 14,714**	$ 13,490
Additions		224		335
Accretion	**(1,576)**	(1,927)	**(4,948)**	(3,584)
Adjustment for payoffs	**(760)**	(489)	**(2,096)**	(722)
Adjustment for charge-offs		(5)		(69)
Increase in accretable yield (a)	**216**	2,878	**678**	7,059
Balance, end of period	**$ 8,348**	$ 16,509	**$ 8,348**	$ 16,509

(a) Includes changes in the accretable yield due to both transfers from the nonaccretable difference and the impact of changes in the expected timing of the cash flows.

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Note 4 Loans (Continued)

At June 30, 2015, the ALLL related to PCI loans was $2.8 million compared to $2.5 million at June 30, 2014. A loan loss provision credit of $.3 million was recognized during the three months ended June 30, 2015 as compared to a loan loss provision expense of $.6 million recognized during the three months ended June 30, 2014. A loan loss provision credit of $.6 million was recognized during the six months ended June 30, 2015 as compared to a loan loss provision expense of $1.7 million recognized during the six months ended June 30, 2014. The following table reflects the outstanding principal balance and carrying amounts of the acquired PCI loans as of June 30, 2015 and 2014, and December 31, 2014:

	June 30, 2015		June 30, 2014		December 31, 2014	
(Dollars in thousands)	**Carrying value**	**Unpaid balance**	Carrying value	Unpaid balance	Carrying value	Unpaid balance
Commercial, financial and industrial	**$ 4,870**	**$ 5,507**	$ 6,738	$ 8,256	$ 5,044	$ 5,813
Commercial real estate	**20,262**	**24,830**	32,938	45,295	32,553	43,246
Consumer real estate	**1,927**	**2,796**	733	1,074	598	868
Credit card and other	**9**	**11**	11	16	10	14
Total	**$ 27,068**	**$ 33,144**	$ 40,420	$ 54,641	$ 38,205	$ 49,941

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Note 4 Loans (Continued)

Impaired Loans

The following tables provide information at June 30, 2015 and 2014, by class related to individually impaired loans and consumer TDR s. Recorded investment is defined as the amount of the investment in a loan, before valuation allowance but which does reflect any direct write-down of the investment. For purposes of this disclosure, PCI loans and LOCOM have been excluded.

	June 30, 2015			Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:							
Commercial:							
General C&I	$ 12,402	$ 15,690	$	$ 13,016	$	$ 12,305	$
Income CRE	4,187	11,262		4,198		5,283	
Residential CRE						287	
Total	$ 16,589	$ 26,952	$	$ 17,214	$	$ 17,875	$
Retail:							
HELOC (a)	$ 12,577	$ 30,604	$	$ 12,588	$	$ 12,788	$
R/E installment loans (a)	4,959	6,211		4,739		4,704	
Permanent mortgage (a)	6,403	8,603		6,804		7,018	
Total	$ 23,939	$ 45,418	$	$ 24,131	$	$ 24,510	$
Impaired loans with related allowance recorded:							
Commercial:							
General C&I	$ 30,549	$ 37,741	$ 8,117	$ 28,400	$ 237	$ 24,087	$ 490
TRUPS	13,399	13,700	4,810	13,414		13,429	
Income CRE	6,788	8,298	533	6,742	33	7,140	63
Residential CRE	1,518	1,886	102	1,571	6	1,534	13
Total	$ 52,254	$ 61,625	$ 13,562	$ 50,127	$ 276	$ 46,190	$ 566
Retail:							
HELOC	$ 87,292	$ 89,454	$ 21,967	$ 86,197	$ 461	$ 85,417	$ 909
R/E installment loans	67,269	68,151	19,439	68,330	331	69,227	658

Permanent mortgage	100,754	113,290	17,857	102,194	637	103,555	1,228
Credit card & other	418	418	155	451	4	479	8
Total	$ 255,733	$ 271,313	$ 59,418	$ 257,172	$ 1,433	$ 258,678	$ 2,803
Total commercial	$ 68,843	$ 88,577	$ 13,562	$ 67,341	$ 276	$ 64,065	$ 566
Total retail	$ 279,672	$ 316,731	$ 59,418	$ 281,303	$ 1,433	$ 283,188	$ 2,803
Total impaired loans	$ 348,515	$ 405,308	$ 72,980	$ 348,644	$ 1,709	$ 347,253	$ 3,369

(a) All discharged bankruptcy loans are charged down to an estimate of net realizable value and do not carry any allowance.

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Note 4 Loans (Continued)

	June 30, 2014			Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:							
Commercial:							
General C&I	$ 15,489	$ 17,280	$	$ 14,809	$	$ 17,594	$
TRUPS						1,625	
Income CRE	6,838	14,397		7,669		8,090	
Residential CRE	1,148	1,827		574		287	
Total	$ 23,475	$ 33,504	$	$ 23,052	$	$ 27,596	$
Retail:							
HELOC (a)	$ 17,390	$ 38,216	$	$ 16,771	$	$ 16,629	$
R/E installment loans (a)	7,464	10,009		8,932		9,818	
Permanent mortgage (a)	7,862	9,785		7,858		8,007	
Total	$ 32,716	$ 58,010	$	$ 33,561	$	$ 34,454	$
Impaired loans with related allowance recorded:							
Commercial:							
General C&I	$ 32,395	$ 38,331	$ 3,150	$ 30,059	$ 78	$ 26,146	$ 157
TRUPS	3,520	3,700	925	8,535		16,057	
Income CRE	8,842	10,214	641	10,331	62	11,214	164
Residential CRE	6,029	11,477	667	6,204	61	6,426	124
Total	$ 50,786	$ 63,722	$ 5,383	$ 55,129	$ 201	$ 59,843	$ 445
Retail:							
HELOC	$ 77,283	$ 78,492	$ 17,475	$ 75,285	$ 457	$ 73,539	$ 891
R/E installment loans	74,748	75,634	26,450	74,243	297	73,629	566
Permanent mortgage	111,604	125,012	19,323	112,796	706	113,145	1,429
Credit card & other	524	524	266	648	5	653	16
Total	$ 264,159	$ 279,662	$ 63,514	$ 262,972	$ 1,465	$ 260,966	$ 2,902
Total commercial	$ 74,261	$ 97,226	$ 5,383	$ 78,181	$ 201	$ 87,439	$ 445
Total retail	$ 296,875	$ 337,672	$ 63,514	$ 296,533	$ 1,465	$ 295,420	$ 2,902

Total impaired loans	$ 371,136	$ 434,898	&n