FIRST HORIZON NATIONAL CORP
Form 10-Q
November 06, 2014
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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 September 30, 2014**

**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 of incorporation or 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 September 30, 2014 |
|---|---|
| Common Stock, $.625 par value | 235,248,564 |

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FIRST HORIZON NATIONAL CORPORATION

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PART I.

FINANCIAL INFORMATION

Item 1. Financial Statements



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 | | |
|---|---|---|---|
| | September 30 | | December 31 |
| *(Dollars in thousands, except restricted and per share amounts)(Unaudited)* | **2014** | 2013 | 2013 |
| **Assets:** | | | |
| Cash and due from banks (Restricted $.3 million on September 30, 2014; $1.5 million on September 30, 2013; and $1.2 million on December 31, 2013) | **$ 292,687** | $ 395,631 | $ 349,216 |
| Federal funds sold | **55,242** | 52,830 | 66,079 |
| Securities purchased under agreements to resell (Note 16) | **561,802** | 576,355 | 412,614 |
| Total cash and cash equivalents (Restricted $.3 million on September 30, 2014; $1.5 million on September 30, 2013; and $1.2 million on December 31, 2013) | **909,731** | 1,024,816 | 827,909 |
| Interest-bearing cash | **275,485** | 184,179 | 730,297 |
| Trading securities | **1,338,022** | 1,343,134 | 801,718 |
| Loans held-for-sale (Note 17) | **151,915** | 371,640 | 370,152 |
| Securities available-for-sale (Note 3) | **3,534,671** | 3,186,943 | 3,398,457 |
| Securities held-to-maturity (Note 3) | **4,286** | | |
| Loans, net of unearned income (Restricted $.1 billion on September 30, 2014; September 30, 2013; and December 31, 2013) (Note 4) | **15,812,017** | 15,408,556 | 15,389,074 |
| Less: Allowance for loan losses (Restricted $.8 million on September 30, 2014; $3.2 million on September 30, 2013; and $4.4 million on December 31, 2013) (Note 5) | **238,641** | 255,710 | 253,809 |
| Total net loans (Restricted $.1 billion on September 30, 2014; September 30, 2013; and December 31, 2013) | **15,573,376** | 15,152,846 | 15,135,265 |
| Mortgage servicing rights (Note 6) | **2,880** | 116,686 | 72,793 |
| Goodwill (Note 7) | **141,943** | 140,479 | 141,943 |
| Other intangible assets, net (Note 7) | **19,044** | 22,216 | 21,988 |
| Capital markets receivables | **197,507** | 83,154 | 45,255 |
| Premises and equipment, net | **295,833** | 308,779 | 305,244 |
| Real estate acquired by foreclosure | **47,996** | 71,626 | 71,562 |
| Derivative assets (Note 15) | **137,742** | 215,116 | 181,866 |
| Other assets (Restricted $.4 million on September 30, 2014; $1.4 million on September 30, 2013; and $1.9 million on December 31, 2013) | **1,356,356** | 1,637,139 | 1,685,384 |
| **Total assets (Restricted $.1 billion on September 30, 2014; September 30, 2013; and December 31, 2013)** | **$ 23,986,787** | $ 23,858,753 | $ 23,789,833 |
| **Liabilities and equity:** | | | |
| Deposits: | | | |
| Savings | **$ 6,371,156** | $ 6,781,522 | $ 6,732,326 |
| Time deposits | **767,699** | 997,726 | 951,755 |

| | | | |
|---|---|---|---|
| Other interest-bearing deposits | **3,955,152** | 3,494,236 | 3,859,079 |
| Certificates of deposit $100,000 and more | **446,938** | 575,679 | 553,957 |
| Interest-bearing | **11,540,945** | 11,849,163 | 12,097,117 |
| Noninterest-bearing | **4,603,826** | 4,434,746 | 4,637,839 |
| Total deposits | **16,144,771** | 16,283,909 | 16,734,956 |
| Federal funds purchased | **928,159** | 1,062,901 | 1,042,633 |
| Securities sold under agreements to repurchase (Note 16) | **479,384** | 427,232 | 442,789 |
| Trading liabilities | **532,234** | 585,969 | 368,348 |
| Other short-term borrowings | **790,080** | 303,686 | 181,146 |
| Term borrowings (Restricted $.1 billion on September 30, 2014; September 30, 2013; and December 31, 2013) | **1,491,138** | 1,771,288 | 1,739,859 |
| Capital markets payables | **329,960** | 53,784 | 21,173 |
| Derivative liabilities (Note 15) | **123,442** | 165,918 | 154,280 |
| Other liabilities | **545,678** | 770,773 | 603,898 |
| Total liabilities (Restricted $.1 billion on September 30, 2014; September 30, 2013; and December 31, 2013) | **21,364,846** | 21,425,460 | 21,289,082 |
| **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 September 30, 2014, September 30, 2013 and December 31, 2013) | **95,624** | 95,624 | 95,624 |
| Common stock $.625 par value (shares authorized 400,000,000; shares issued 235,248,564 on September 30, 2014; 236,328,090 on September 30, 2013; and 236,369,554 on December 31, 2013) | **147,030** | 147,705 | 147,731 |
| Capital surplus | **1,390,081** | 1,413,248 | 1,416,767 |
| Undivided profits | **826,610** | 657,676 | 695,207 |
| Accumulated other comprehensive loss, net (Note 9) | **(132,835)** | (176,391) | (150,009) |
| Total First Horizon National Corporation Shareholders Equity | **2,326,510** | 2,137,862 | 2,205,320 |
| Noncontrolling interest | **295,431** | 295,431 | 295,431 |
| Total equity | **2,621,941** | 2,433,293 | 2,500,751 |
| **Total liabilities and equity (Restricted $.1 billion on September 30, 2014; September 30, 2013; and December 31, 2013)** | **$ 23,986,787** | $ 23,858,753 | $ 23,789,833 |

See accompanying notes to consolidated condensed financial statements.

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## CONSOLIDATED CONDENSED STATEMENTS OF INCOME

| | First Horizon National Corporation | | | |
|---|---|---|---|---|
| | Three Months Ended | | Nine Months End | |
| | September 30 | | September 30 | |
| *ars and shares in thousands except per share data, unless otherwise noted)(Unaudited)* | **2014** | 2013 | **2014** | 201 |
| **est income:** | | | | |
| est and fees on loans | **$ 144,675** | $ 149,698 | **$ 426,042** | $ 454, |
| est on investment securities available-for-sale | **23,254** | 20,916 | **70,038** | 62, |
| est on investment securities held-to-maturity | **66** | | **198** | |
| est on loans held-for-sale | **3,263** | 3,058 | **9,687** | 9, |
| est on trading securities | **7,737** | 8,747 | **23,529** | 25, |
| est on other earning assets | **(137)** | 191 | **307** | |
| interest income | **178,858** | 182,610 | **529,801** | 553, |
| **est expense:** | | | | |
| est on deposits: | | | | |
| gs | **2,600** | 3,471 | **8,475** | 11, |
| deposits | **1,786** | 4,013 | **7,334** | 12, |
| interest-bearing deposits | **754** | 817 | **2,318** | 2, |
| ficates of deposit $100,000 and more | **685** | 1,658 | **2,577** | 4, |
| est on trading liabilities | **3,782** | 3,632 | **11,440** | 10, |
| est on short-term borrowings | **1,265** | 1,103 | **3,565** | 3, |
| est on term borrowings | **8,445** | 9,078 | **25,424** | 27, |
| interest expense | **19,317** | 23,772 | **61,133** | 72, |
| **nterest income** | **159,541** | 158,838 | **468,668** | 480, |
| sion for loan losses | **6,000** | 10,000 | **21,000** | 40, |
| **nterest income after provision for loan losses** | **153,541** | 148,838 | **447,668** | 440, |
| **nterest income:** | | | | |
| al markets | **47,589** | 64,283 | **152,109** | 212, |
| gage banking | **41,559** | 14,460 | **69,449** | 29, |
| sit transactions and cash management | **28,546** | 29,279 | **82,913** | 85, |
| erage, management fees and commissions | **12,333** | 10,868 | **37,452** | 30, |
| services and investment management | **6,779** | 6,649 | **20,832** | 19, |
| card income | **5,521** | 5,303 | **17,960** | 15, |
| -owned life insurance | **3,547** | 3,560 | **12,891** | 12, |
| service charges | **3,064** | 3,707 | **9,052** | 10, |
| ance commissions | **593** | 733 | **1,641** | 2, |
| on divestiture | | 115 | | |
| securities gains/(losses), net | | (96) | | ( |
| y securities gains/(losses), net | **(862)** | | **2,872** | |

| | | | | |
|---|---|---|---|---|
| ther income and commissions (Note 8) | **9,146** | 11,614 | **23,275** | 31, |
| noninterest income | **157,815** | 150,475 | **430,446** | 449, |
| **sted gross income after provision for loan losses** | **311,356** | 299,313 | **878,114** | 889, |
| **nterest expense:** | | | | |
| oyee compensation, incentives, and benefits (three and nine months ended September 30, include $.9 million and $2.6 million, respectively, and three and nine months ended mber 30, 2013, include $2.7 million and $8.1 million, respectively, of expense associated pension and post-retirement plans reclassified from accumulated other comprehensive ne) | **120,742** | 132,213 | **359,630** | 401, |
| pancy | **12,405** | 13,147 | **41,941** | 37, |
| puter software | **10,614** | 10,446 | **32,357** | 30, |
| and professional fees | **10,463** | 12,704 | **31,653** | 37, |
| ations services | **9,044** | 9,199 | **26,830** | 26, |
| pment rentals, depreciation, and maintenance | **7,150** | 7,890 | **22,441** | 23, |
| ract employment and outsourcing | **5,199** | 9,241 | **14,842** | 26, |
| rtising and public relations | **4,386** | 5,486 | **14,606** | 13, |
| munications and courier | **3,628** | 4,517 | **11,800** | 13, |
| premium expense | **3,456** | 4,631 | **8,583** | 15, |
| rtization of intangible assets | **982** | 928 | **2,945** | 2, |
| closed real estate | **788** | 523 | **2,011** | 3, |
| rchase and foreclosure provision | **(4,300)** | 200,000 | **(4,300)** | 200, |
| ther expense (Note 8) | **61,629** | 22,631 | **66,393** | 68, |
| noninterest expense | **246,186** | 433,556 | **631,732** | 901, |
| **me/(loss) before income taxes** | **65,170** | (134,243) | **246,382** | (11, |
| sion/(benefit) for income taxes (three and nine months ended September 30, 2014, de $.3 million and $1.0 million, respectively, and three and nine months ended mber 30, 2013, include $1.0 million and $3.1 million, respectively, of income tax benefit ssified from accumulated other comprehensive income) | **15,421** | (31,094) | **66,223** | 1, |
| **me/(loss) from continuing operations** | **49,749** | (103,149) | **180,159** | (13, |
| me/(loss) from discontinued operations, net of tax (a) | | 123 | | |
| **ncome/(loss)** | **$ 49,749** | $ (103,026) | **$ 180,159** | $ (12, |
| ncome attributable to noncontrolling interest | **2,875** | 2,875 | **8,547** | 8, |
| **ncome/(loss) attributable to controlling interest** | **$ 46,874** | $ (105,901) | **$ 171,612** | $ (21, |
| rred stock dividends | **1,550** | 1,550 | **4,650** | 4, |
| **ncome/(loss) available to common shareholders** | **$ 45,324** | $ (107,451) | **$ 166,962** | $ (25, |
| **earnings/(loss) per share from continuing operations (Note 10)** | **$ 0.19** | $ (0.45) | **$ 0.71** | $ (( |
| **ed earnings/(loss) per share from continuing operations (Note 10)** | **$ 0.19** | $ (0.45) | **$ 0.70** | $ (( |

| | | | | |
|---|---|---|---|---|
| **earnings/(loss) per share (Note 10)** | **$ 0.19** | $ (0.45) | **$ 0.71** | $ ((
| **ed earnings/(loss) per share (Note 10)** | **$ 0.19** | $ (0.45) | **$ 0.70** | $ ((
| **hted average common shares (Note 10)** | **235,329** | 236,895 | **235,437** | 238,
| **ed average common shares (Note 10)** | **236,862** | 236,895 | **237,169** | 238,

See accompanying notes to consolidated condensed financial statements.

Certain previously reported amounts have reclassified to agree with current presentation.

(a) Due to the nature of the preferred stock issued by FHN and its subsidiaries, all components of Income/(loss) from discontinued operations, net of tax have been attributed solely to FHN as the controlling interest holder.

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## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

| | First Horizon National Corporation | | | |
|---|---|---|---|---|
| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
| *(Dollars in thousands) (Unaudited)* | **2014** | 2013 | **2014** | 2013 |
| Net income/(loss) | **$ 49,749** | $ (103,026) | **$ 180,159** | $ (12,821) |
| Other comprehensive income/(loss), net of tax: | | | | |
| Unrealized fair value adjustments: | | | | |
| Securities available-for-sale | **(11,288)** | 1,714 | 15,549 | (44,097) |
| Recognized pension and other employee benefit plans net periodic benefit costs | **564** | 10,560 | 1,625 | 14,049 |
| Other comprehensive income/(loss) | **(10,724)** | 12,274 | **17,174** | (30,048) |
| Comprehensive income/(loss) | **39,025** | (90,752) | **197,333** | (42,869) |
| Comprehensive income attributable to noncontrolling interest | **2,875** | 2,875 | **8,547** | 8,531 |
| Comprehensive income/(loss) attributable to controlling interest | **$ 36,150** | $ (93,627) | **$ 188,786** | $ (51,400) |

See accompanying notes to consolidated condensed financial statements.

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**CONSOLIDATED CONDENSED STATEMENTS OF EQUITY**

| | First Horizon National Corporation | | | | | |
|---|---|---|---|---|---|---|
| | **2014** | | | 2013 | | |
| *ollars in thousands except per share data)(Unaudited)* | Controlling Interest | Noncontrolling Interest | Total | Controlling Interest | Noncontrolling Interest | Total |
| lance, January 1 | **$ 2,205,320** | **$ 295,431** | **$ 2,500,751** | $ 2,214,041 | $ 295,165 | $ 2,509,20 |
| t income/(loss) | **171,612** | **8,547** | **180,159** | (21,352) | 8,531 | (12,82 |
| her comprehensive income/(loss) (a) | **17,174** | | **17,174** | (30,048) | | (30,04 |
| mprehensive income/(loss) | **188,786** | **8,547** | **197,333** | (51,400) | 8,531 | (42,86 |
| eferred stock issuance (1,000 shares issued at $100,000 share net of offering costs) | | | | 95,624 | | 95,62 |
| sh dividends declared: | | | | | | |
| eferred stock ($4,650 per share and $4,288 per share for nine months ended September 30, 2014 and 2013, pectively) | **(4,650)** | | **(4,650)** | (4,288) | | (4,28 |
| mmon stock ($.15 per share) | **(35,560)** | | **(35,560)** | (36,345) | | (36,34 |
| mmon stock repurchased (b) | **(28,903)** | | **(28,903)** | (91,395) | | (91,39 |
| mmon stock issued for: | | | | | | |
| ock options and restricted stock equity awards | **935** | | **935** | 608 | | 60 |
| ock-based compensation expense | **8,355** | | **8,355** | 12,452 | | 12,45 |
| vidends declared noncontrolling interest of subsidiary eferred stock | | **(8,547)** | **(8,547)** | | (8,531) | (8,53 |
| x benefit reversals stock-based compensation plans | **(7,773)** | | **(7,773)** | (1,509) | | (1,50 |
| al estate investment trust ( REIT ) preferred stock uance | | | | | 92 | 9 |
| quired noncontrolling interest-REIT | | | | | 174 | 17 |
| her changes in equity | | | | 74 | | 7 |
| **lance, September 30** | **$ 2,326,510** | **$ 295,431** | **$ 2,621,941** | $ 2,137,862 | $ 295,431 | $ 2,433,29 |

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) 2014 includes $24.0 million repurchased under the share repurchase program launched in January 2014. 2013 includes $87.6 million repurchased under the share repurchase program launched in 2011.

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**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

| | First Horizon National Corporation | |
|---|---|---|
| | Nine Months Ended September 30 | |
| *(Dollars in thousands)(Unaudited)* | **2014** | 2013 |
| **Operating Activities** | | |
| Net income/(loss) | **$ 180,159** | $ (12,821) |
| Adjustments to reconcile net income/(loss) to net cash provided/(used) by operating activities: | | |
| Provision for loan losses | **21,000** | 40,000 |
| Provision/(benefit) for deferred income taxes | **1,557** | (26,779) |
| Depreciation and amortization of premises and equipment | **26,791** | 26,507 |
| Amortization of intangible assets | **2,945** | 2,784 |
| Net other amortization and accretion | **12,586** | 26,387 |
| Net (increase)/decrease in derivatives | **2,887** | (7,858) |
| Fair value adjustment on mortgage servicing rights | **(1,265)** | (20,267) |
| Repurchase and foreclosure provision | **(4,300)** | 200,000 |
| Fair value adjustment to foreclosed real estate | **2,098** | 3,278 |
| Litigation and regulatory matters | **(2,720)** | 6,299 |
| (Gains)/losses on divestitures | | (638) |
| Stock-based compensation expense | **8,355** | 12,452 |
| Tax benefit reversals stock-based compensation plans | **7,773** | 1,509 |
| Equity securities (gains)/losses, net | **(2,872)** | (28) |
| Debt securities (gains)/losses, net | | 451 |
| (Gains)/losses on extinguishment of debt | **4,350** | |
| Loss on deconsolidation of debt | **1,960** | |
| Net (gains)/losses on sale/disposal of fixed assets | **3,256** | 1,050 |
| Proceeds from sale of mortgage servicing rights | **70,071** | |
| Net (increase)/decrease in: | | |
| Trading securities | **(535,921)** | (84,502) |
| Loans held-for-sale | **218,237** | 30,297 |
| Capital markets receivables | **(152,252)** | 34,618 |
| Interest receivable | **(2,547)** | 890 |
| Other assets | **319,017** | 87,022 |
| Net increase/(decrease) in: | | |
| Capital markets payables | **308,787** | (56,545) |
| Interest payable | **7,171** | 5,810 |
| Other liabilities | **(75,434)** | (177,245) |
| Trading liabilities | **163,886** | 21,540 |
| Total adjustments | **405,416** | 127,032 |
| Net cash provided/(used) by operating activities | **585,575** | 114,211 |
| **Investing Activities** | | |
| Available-for-sale securities: | | |

| | | |
|---|---|---|
| Sales | **7,829** | 63,787 |
| Maturities | **497,144** | 783,033 |
| Purchases | **(620,329)** | (977,723) |
| Premises and equipment: | | |
| Sales | **1,283** | |
| Purchases | **(21,919)** | (18,949) |
| Net (increase)/decrease in: | | |
| Loans | **(449,223)** | 1,461,678 |
| Interests retained from securitizations classified as trading securities | **1,176** | 4,088 |
| Interest-bearing cash | **454,812** | 196,178 |
| Cash receipts related to divestitures | | 1,638 |
| Cash received for acquisition | | 50,934 |
| Net cash provided/(used) by investing activities | **(129,227)** | 1,564,664 |
| **Financing Activities** | | |
| Common stock: | | |
| Stock options exercised | **944** | 608 |
| Cash dividends paid | **(35,659)** | (26,467) |
| Repurchase of shares (a) | **(28,903)** | (91,395) |
| Tax benefit reversals stock-based compensation plans | **(7,773)** | (1,509) |
| Preferred stock issuance | | 95,624 |
| Cash dividends paid preferred stock noncontrolling interest | **(8,531)** | (8,531) |
| Cash dividends paid Series A preferred stock | **(4,650)** | (2,738) |
| Term borrowings: | | |
| Payments/maturities | **(231,913)** | (411,027) |
| Increases in restricted and secured term borrowings | **2,089** | 4,411 |
| Net increase/(decrease) in: | | |
| Deposits | **(591,185)** | (707,898) |
| Short-term borrowings | **531,055** | (611,399) |
| Net cash provided/(used) by financing activities | **(374,526)** | (1,760,321) |
| Net increase/(decrease) in cash and cash equivalents | **81,822** | (81,446) |
| Cash and cash equivalents at beginning of period | **827,909** | 1,106,262 |
| Cash and cash equivalents at end of period | **$ 909,731** | $ 1,024,816 |
| **Supplemental Disclosures** | | |
| Total interest paid | **$ 52,785** | $ 65,750 |
| Total taxes paid | **54,540** | 5,044 |
| Total taxes refunded | **1,966** | 26,035 |
| Transfer from loans to other real estate owned | **17,010** | 14,481 |

Certain previously reported amounts have been reclassified to agree with current presentation.

See accompanying notes to consolidated condensed financial statements.

(a) 2014 includes $24.0 million repurchased under the share repurchase program launched in January 2014. 2013 includes $87.6 million repurchased under the share repurchase program launched in 2011.

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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 2014 periods are not necessarily indicative of the results that may be expected going forward. For further information, refer to the audited consolidated financial statements in the 2013 Annual Report to shareholders, which were filed as Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2013.

***Summary of Accounting Changes.*** Effective January 2014, FHN adopted provisions of FASB ASU 2013-11 Income Taxes: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Generally, ASU 2013-11 requires that an unrecognized tax benefit should reduce a deferred tax asset ( DTA ) that has been established for a net operating loss ( NOL ), a tax credit carryforward, or other similar tax losses. However, if a filer does not have such carryforwards or similar tax losses at the reporting date, the uncertain tax position should be recorded as a liability. If a filer does have a DTA, but is not required by tax law of the applicable jurisdiction to use the DTA to settle additional taxes from the disallowance of a tax position and that is the filer s intent, the uncertain tax position should be recognized as a liability in that situation as well and not netted with the DTA. The assessment of whether a DTA is available is based on the unrecognized tax benefit and DTA that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The adoption of provisions of ASU 2013-11, did not have a material effect on FHN s statement of condition, results of operations, or cash flows.

***Accounting Changes Issued but Not Currently Effective.*** 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, and will be applied retrospectively to all periods presented. Early adoption is permitted. FHN is evaluating the effects of ASU 2014-01 on its portfolio of low income housing investments.

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 property 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 can elect 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. Early adoption is permitted. FHN is evaluating the requirements of ASU 2014-04 with respect to its current foreclosure accounting practices.

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**Note 1 Financial Information (Continued)**

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. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not 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.

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.

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 2014-14, 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 it 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 and interim 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 currently classifies foreclosed properties with government guarantees within other real estate owned and is evaluating the transition alternatives.

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, 2015 and all interim and annual periods thereafter. The provisions of ASU 2014-15 are not anticipated to affect FHN.

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## Note 2 Acquisitions and Divestitures

On June 7, 2013, First Tennessee Bank National Association ( FTBNA ) acquired substantially all of the assets and liabilities of Mountain National Bank ( MNB ) a community bank headquartered in Sevierville, Tennessee from the Federal Deposit Insurance Corporation ( FDIC ), as receiver, pursuant to a purchase and assumption agreement. Prior to the acquisition, MNB operated 12 branches in Sevier and Blount counties in eastern Tennessee.

Excluding purchase accounting adjustments, FHN acquired approximately $452 million in assets, including approximately $249 million in loans, and assumed approximately $362 million of MNB deposits. There was no premium associated with the acquired deposits and assets were acquired at a discount of $33 million from book value. FHN did not enter into a loss-sharing agreement with the FDIC associated with the MNB purchase. In relation to the acquisition FHN recorded $7.7 million in goodwill, representing the excess of the estimated fair value of liabilities assumed over the estimated fair value of the assets acquired.

See Note 2 Acquisitions and Divestitures in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2013, for additional information about the MNB acquisition.

On May 27, 2014, FTBNA entered into an agreement to purchase thirteen bank branches. The purchase of the branches closed on October 17, 2014. The branches are in communities in Middle and East Tennessee including Waverly, Columbia, Lawrenceburg, Lewisburg, Sparta, Rockwood, Greeneville, Kingston, Bristol, Johnson City, and Kingsport. FTBNA paid a deposit premium of 3.32 percent based on deposit balances near the time the transaction closed; those balances approximated $440 million. FTBNA acquired an immaterial amount of loans as part of the transaction.

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. At September 30, 2014, TrustAtlantic Financial reported on a consolidated basis approximately $453 million of total assets and approximately $395 million of total deposits. The aggregate transaction value is estimated to be approximately $80 million, based on FHN s common stock value at the time the agreement was signed. The transaction is expected to close in the first half of 2015, subject to the approval of the shareholders of TrustAtlantic Financial as well as regulatory approvals and other customary conditions to closing.

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 September 30, 2014 and 2013:

| | **September 30, 2014** | | | |
|---|---|---|---|---|
| *(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 ) | 685,426 | 33,820 | (2,381) | 716,865 |
| Government agency issued collateralized mortgage obligations ( CMO ) | 2,648,047 | 15,637 | (39,999) | 2,623,685 |
| Other U.S. government agencies | 1,859 | 70 | | 1,929 |
| States and municipalities | 10,205 | | | 10,205 |
| Equity and other (a) | 182,119 | | (232) | 181,887 |
| Total securities available-for-sale (b) | **$ 3,527,756** | **$ 49,527** | **$ (42,612)** | **$ 3,534,671** |
| **Securities held-to-maturity ( HTM ):** | | | | |
| States and municipalities | $ 4,286 | $ 1,094 | $ | $ 5,380 |
| Total securities held-to-maturity | **$ 4,286** | **$ 1,094** | **$** | **$ 5,380** |

(a) Includes restricted investments in FHLB-Cincinnati stock of $87.9 million and FRB stock of $66.0 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.

| | September 30, 2013 | | | |
|---|---|---|---|---|
| *(Dollars in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| **Securities available-for-sale:** | | | | |
| U.S. treasuries | $ 39,993 | $ 3 | $ | $ 39,996 |
| Government agency issued MBS | 838,077 | 40,944 | (3,570) | 875,451 |
| Government agency issued CMO | 2,043,803 | 17,420 | (36,102) | 2,025,121 |
| Other U.S. government agencies | 2,381 | 147 | | 2,528 |
| States and municipalities | 15,155 | | | 15,155 |
| Equity and other (a) | 228,709 | | (17) | 228,692 |
| Total securities available-for-sale (b) | $ 3,168,118 | $ 58,514 | $ (39,689) | $ 3,186,943 |

(a) Includes restricted investments in FHLB-Cincinnati stock of $128.0 million and FRB stock of $66.0 million. The remainder is money market, venture capital, and cost method investments.
(b) Includes $2.9 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.

The amortized cost and fair value by contractual maturity for the available-for-sale and held-to-maturity securities portfolios on September 30, 2014, are provided below:

| | Held-to-Maturity | | Available-for-Sale | |
|---|---|---|---|---|
| *(Dollars in thousands)* | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Within 1 year | $ | $ | $ | $ |
| After 1 year; within 5 years | | | 3,459 | 3,529 |
| After 5 years; within 10 years | | | | |
| After 10 years | 4,286 | 5,380 | 8,705 | 8,705 |
| Subtotal | 4,286 | 5,380 | 12,164 | 12,234 |
| Government agency issued MBS and CMO | | | 3,333,473 | 3,340,550 |
| Equity and other | | | 182,119 | 181,887 |
| Total | **$ 4,286** | **$ 5,380** | **$ 3,527,756** | **$ 3,534,671** |

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.

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## Note 3 Investment Securities (Continued)

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

| *(Dollars in thousands)* | Three Months Ended September 30 **2014** | Three Months Ended September 30 2013 | Nine Months Ended September 30 **2014** | Nine Months Ended September 30 2013 |
|---|---|---|---|---|
| Gross gains on sales of securities | **$ 133** | $ 728 | **$ 5,867** | $ 770 |
| Gross losses on sales of securities | | (824) | | (1,193) |
| Net gain/(loss) on sales of securities (a) | **133** | (96) | **5,867** | (423) |
| Venture capital investments (b) | **(995)** | | **(2,995)** | |
| Total securities gain/(loss), net | **$ (862)** | $ (96) | **$ 2,872** | $ (423) |

(a) Proceeds from sales for the three months ended September 30, 2014 were $3.3 million. Proceeds for the nine months ended September 30, 2014 were $9.2 million, inclusive of $1.4 million of equity securities. Proceeds from the three and nine months ended September 30, 2013, were $44.9 million and $63.8 million, respectively.

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

The following tables provide information on investments within the available-for-sale portfolio that had unrealized losses as of September 30, 2014 and 2013:

| | **As of September 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 | $ 724,834 | $ (5,113) | $ 949,556 | $ (34,886) | $ 1,674,390 | $ (39,999) |
| Government agency issued MBS | 32,621 | (244) | 103,858 | (2,137) | 136,479 | (2,381) |
| Total debt securities | 757,455 | (5,357) | 1,053,414 | (37,023) | 1,810,869 | (42,380) |
| Equity | 849 | (198) | 10 | (34) | 859 | (232) |
| Total temporarily impaired securities | $ 758,304 | $ (5,555) | $ 1,053,424 | $ (37,057) | $ 1,811,728 | $ (42,612) |

| | As of September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 1,241,836 | $ (36,025) | $ 12,018 | $ (77) | $ 1,253,854 | $ (36,102) |
| Government agency issued MBS | 154,299 | (3,570) | | | 154,299 | (3,570) |
| Total Debt Securities | 1,396,135 | (39,595) | 12,018 | (77) | 1,408,153 | (39,672) |
| Equity | 43 | (17) | | | 43 | (17) |
| Total temporarily impaired securities | $ 1,396,178 | $ (39,612) | $ 12,018 | $ (77) | $ 1,408,196 | $ (39,689) |

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 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 September 30, 2014 and 2013, and December 31, 2013:

| | September 30 | | December 31 |
|---|---|---|---|
| *(Dollars in thousands)* | **2014** | 2013 | 2013 |
| Commercial: | | | |
| Commercial, financial, and industrial | **$ 8,477,329** | $ 7,746,942 | $ 7,923,576 |
| Commercial real estate | **1,278,394** | 1,173,711 | 1,133,279 |
| Retail: | | | |
| Consumer real estate (a) | **5,130,988** | 5,458,047 | 5,333,371 |
| Permanent mortgage (b) | **572,789** | 697,694 | 662,242 |
| Credit card & other | **352,517** | 332,162 | 336,606 |
| Loans, net of unearned income | **$ 15,812,017** | $ 15,408,556 | $ 15,389,074 |
| Allowance for loan losses | **238,641** | 255,710 | 253,809 |
| Total net loans | **$ 15,573,376** | $ 15,152,846 | $ 15,135,265 |

(a) Balances as of September 30, 2014 and 2013, and December 31, 2013 include $81.1 million, $349.3 million, and $333.8 million of restricted and secured real estate loans, respectively. See Note 14 Variable Interest Entities for additional information.

(b) Balances as of September 30, 2013, and December 31, 2013 include $11.7 million and $11.2 million of restricted and secured real estate loans, respectively. See Note 14 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 ( PCI )), 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 exclusively 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 commercial real estate 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 (36 percent of total loans), the majority of which is in the consumer real estate portfolio (32 percent of total loans). Loans to finance and insurance companies total $1.9 billion (22 percent of the C&I portfolio, or 12 percent of the total loans). FHN had loans to mortgage companies totaling $1.0 billion (11 percent of the C&I portfolio, or 6 percent of total loans) as of September 30, 2014. As a result, 33 percent of the C&I category was sensitive to impacts on the financial services industry.

**Acquisition**

On June 7, 2013, FHN acquired substantially all of the assets and liabilities of MNB from the FDIC. The acquisition included approximately $249 million of loans. These loans were initially recorded at fair value which incorporates expected credit losses, among other things, in accordance with ASC 805 resulting in no carryover of allowance for loan loss ( ALLL ) from the acquiree. At acquisition, FHN designated certain loans as PCI (see discussion below) with the remaining loans accounted for under ASC 310-20, Nonrefundable Fees and Other Costs . For loans accounted for under ASC 310-20, the difference between the loans book value to MNB and the estimated fair value at the time of the acquisition will be accreted back into interest income over the remaining contractual life and the subsequent accounting and reporting will be similar to FHN s originated loan portfolio.

**PCI Loans**

ASC 310-30, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, provides guidance for acquired loans that have experienced deterioration of credit quality between origination and the time of acquisition and for which the timely collection of the interest and principal is no longer reasonably assured. FHN considered several factors when determining whether a loan met the definition of a PCI loan at the time of acquisition including accrual status, loan grade, delinquency trends, prior partial charge-offs, as well as both originated versus refreshed credit scores and ratios when available.

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**Note 4 Loans (Continued)**

PCI loans were initially recorded at fair value which was estimated by discounting expected cash flows at acquisition date. The expected cash flow includes all contractually expected amounts and incorporates an estimate for future expected credit losses, pre-payment assumptions, and yield requirement for a market participant, among other things. To the extent possible, certain PCI loans were aggregated into pools with composite interest rate and cash flows expected to be collected for the pool. Aggregation into loan pools is based on common risk characteristics that include similar credit risk or risk ratings, and one or more predominant risk characteristics. Generally, FHN pooled loans with smaller balances and common internal loan grades and portfolio types. Subsequent to the initial accounting at acquisition, each PCI pool is accounted for as a single unit.

Accretable yield is initially established at acquisition and is the excess of cash flows expected to be collected over the initial investment in the loan and is recognized in interest income over the remaining life of the loan, or pool of loans. Nonaccretable difference is the difference between the contractually required payments at acquisition and the cash flows expected to be collected at acquisition. FHN estimates expected cash flows for PCI loans on a quarterly basis. Increases in expected cash flows from the last measurement will result in reversal of any nonaccretable difference (or allowance for loan losses to the extent any has been recorded) with a prospective positive impact on interest income. Decreases to the expected cash flows will result in an increase in the allowance for loan losses through increased provision expense.

FHN does not report PCI loans as nonperforming loans due to the accretion of interest income. Additionally, PCI loans that have been pooled and subsequently modified will not be reported as troubled debt restructurings since the pool is the unit of measurement.

The following table presents a rollforward of the accretable yield for the three and nine months ended September 30, 2014 and 2013:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **2014** | 2013 | **2014** | 2013 |
| Balance, beginning of period | **$ 16,509** | $ 6,432 | **$ 13,490** | $ |
| Additions | | | **335** | 6,650 |
| Accretion | **(1,829)** | (821) | **(5,413)** | (1,039) |
| Adjustment for payoffs | **(828)** | (40) | **(1,550)** | (40) |
| Adjustment for charge-offs | **(10)** | | **(79)** | |
| Increase in accretable yield (a) | **2,231** | | **9,290** | |
| **Balance, end of period** | **$ 16,073** | $ 5,571 | **$ 16,073** | $ 5,571 |

(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.

At September 30, 2014, the ALLL related to PCI loans was $2.8 million and loan loss provision recognized during the three and nine months ended September 30, 2014 was $.4 million and $2.1 million, respectively. The following table reflects the outstanding principal balance and carrying amounts of the PCI loans as of September 30, 2014, and 2013, and December 31, 2013:

| | **September 30, 2014** | | September 30, 2013 | | December 31, 2013 | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | **Carrying value** | **Unpaid balance** | Carrying value | Unpaid balance | Carrying value | Unpaid balance |
| Commercial, financial and industrial (a) | **$ 5,028** | **$ 6,155** | $ 7,712 | $ 9,509 | $ 7,077 | $ 9,169 |
| Commercial real estate (a) | **31,660** | **42,890** | 39,645 | 55,789 | 38,042 | 53,648 |
| Consumer real estate (a) | **585** | **875** | 888 | 1,300 | 878 | 1,291 |
| Credit card and other (a) | **11** | **16** | 15 | 22 | 12 | 21 |
| Total | **$ 37,284** | **$ 49,936** | $ 48,260 | $ 66,620 | $ 46,009 | $ 64,129 |

(a) September 30, 2013 balances by portfolio have been re-presented to agree with current presentation.

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**Note 4 Loans (Continued)**

**Impaired Loans**

The following tables provide information at September 30, 2014 and 2013, 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.

| | September 30, 2014 | | | Three Months Ended September 30, 2014 | | Nine Months Ended September 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 | $ 15,594 | $ 17,185 | $ | $ 15,542 | $ | $ 16,910 | $ |
| TRUPS | | | | | | 1,083 | |
| Income CRE | 6,819 | 14,379 | | 6,829 | | 7,670 | |
| Residential CRE | 1,148 | 1,827 | | 1,148 | | 574 | |
| Total | $ 23,561 | $ 33,391 | $ | $ 23,519 | $ | $ 26,237 | $ |
| Retail: | | | | | | | |
| HELOC (a) | $ 14,036 | $ 34,693 | $ | $ 15,713 | $ | $ 16,324 | $ |
| R/E installment loans (a) | 5,640 | 7,221 | | 6,552 | | 8,729 | |
| Permanent mortgage (a) | 7,616 | 10,023 | | 7,739 | | 7,918 | |
| Total | $ 27,292 | $ 51,937 | $ | $ 30,004 | $ | $ 32,971 | $ |
| **Impaired loans with related allowance recorded:** | | | | | | | |
| Commercial: | | | | | | | |
| General C&I | $ 18,393 | $ 22,579 | $ 2,229 | $ 25,394 | $ 79 | $ 25,895 | $ 236 |
| TRUPS | 13,490 | 13,700 | 3,810 | 8,505 | | 13,540 | |
| Income CRE | 8,735 | 10,107 | 481 | 8,789 | 62 | 10,406 | 226 |
| Residential CRE | 5,663 | 11,111 | 623 | 5,846 | 59 | 6,233 | 183 |
| Total | $ 46,281 | $ 57,497 | $ 7,143 | $ 48,534 | $ 200 | $ 56,074 | $ 645 |
| Retail: | | | | | | | |
| HELOC | $ 81,422 | $ 82,813 | $ 17,061 | $ 79,352 | $ 448 | $ 75,476 | $ 1,339 |
| R/E installment loans | 73,434 | 74,690 | 24,431 | 74,091 | 306 | 73,783 | 872 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Permanent mortgage | 110,921 | 124,429 | 17,329 | 111,263 | 709 | 112,518 | 2,138 |
| Credit card & other | 548 | 548 | 255 | 536 | 5 | 614 | 21 |
| Total | $ 266,325 | $ 282,480 | $ 59,076 | $ 265,242 | $ 1,468 | $ 262,391 | $ 4,370 |
| Total commercial | $ 69,842 | $ 90,888 | $ 7,143 | $ 72,053 | $ 200 | $ 82,311 | $ 645 |
| Total retail | $ 293,617 | $ 334,417 | $ 59,076 | $ 295,246 | $ 1,468 | $ 295,362 | $ 4,370 |
| Total impaired loans | $ 363,459 | $ 425,305 | $ 66,219 | $ 367,299 | $ 1,668 | $ 377,673 | $ 5,015 |

(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)**

| | September 30, 2013 | | | Three Months Ended September 30, 2013 | | Nine Months Ended September 30, 2013 | |
|---|---|---|---|---|---|---|---|
| *(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 | $ 34,193 | $ 43,677 | $ | $ 40,812 | $ | $ 51,845 | $ 108 |
| TRUPS | 6,500 | 6,500 | | 6,500 | | 10,583 | |
| Income CRE | 12,939 | 24,219 | | 17,959 | | 24,828 | 168 |
| Residential CRE | | 182 | | 5,483 | | 10,860 | 122 |
| Total | $ 53,632 | $ 74,578 | $ | $ 70,754 | $ | $ 98,116 | $ 398 |
| Retail: | | | | | | | |
| HELOC (a) | $ 18,323 | $ 40,867 | $ | $ 19,016 | $ | $ 20,032 | $ |
| R/E installment loans (a) | 11,632 | 15,102 | | 11,913 | | 12,166 | |
| Permanent mortgage (a) | 11,120 | 14,531 | | 11,127 | | 10,690 | |
| Total | $ 41,075 | $ 70,500 | $ | $ 42,056 | $ | $ 42,888 | $ |
| **Impaired loans with related allowance recorded:** | | | | | | | |
| Commercial: | | | | | | | |
| General C&I | $ 31,672 | $ 38,075 | $ 2,447 | $ 27,944 | $ 71 | $ 16,319 | $ 108 |
| TRUPS | 33,610 | 33,610 | 13,255 | 38,655 | | 39,185 | |
| Income CRE | 10,274 | 11,330 | 765 | 7,552 | 70 | 3,859 | 96 |
| Residential CRE | 7,053 | 12,383 | 816 | 4,567 | 68 | 1,869 | 84 |
| Total | $ 82,609 | $ 95,398 | $ 17,283 | $ 78,718 | $ 209 | $ 61,232 | $ 288 |
| Retail: | | | | | | | |
| HELOC | $ 68,903 | $ 71,708 | $ 15,702 | $ 68,287 | $ 483 | $ 65,005 | $ 1,373 |
| R/E installment loans | 71,543 | 72,686 | 22,724 | 75,084 | 336 | 72,571 | 1,025 |
| Permanent mortgage | 117,004 | 129,702 | 18,646 | 114,501 | 776 | 111,880 | 2,164 |
| Credit card & other | 648 | 648 | 212 | 682 | 7 | 732 | 23 |
| Total | $ 258,098 | $ 274,744 | $ 57,284 | $ 258,554 | $ 1,602 | $ 250,188 | $ 4,585 |
| Total commercial | $ 136,241 | $ 169,976 | $ 17,283 | $ 149,472 | $ 209 | $ 159,348 | $ 686 |
| Total retail | $ 299,173 | $ 345,244 | $ 57,284 | $ 300,610 | $ 1,602 | $ 293,076 | $ 4,585 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total impaired loans | $ 435,414 | $ 515,220 | $ 74,567 | $ 450,082 | $ 1,811 | $ 452,424 | $ 5,271 |

Certain previously reported amounts have been reclassified to agree with current presentation.

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

**Asset Quality Indicators**

FHN employs a dual grade commercial risk grading methodology to assign an estimate for the probability of default ( PD ) and the loss given default ( LGD ) for each commercial loan using factors specific to various industry, portfolio, or product segments that result in a rank ordering of risk and the assignment of grades PD 1 to PD 16. Each PD grade corresponds to an estimated one-year default probability percentage; a PD 1 has the lowest expected default probability, and probabilities increase as grades progress down the scale. PD 1 through PD 12 are pass grades. PD grades 13-16 correspond to the regulatory-defined categories of special mention (13), substandard (14), doubtful (15), and loss (16). Pass loan grades are required to be reassessed annually or earlier whenever there has been a material change in the financial condition of the borrower or risk characteristics of the relationship. All commercial loans over $1 million and certain commercial loans over $500,000 that are graded 13 or worse are reassessed on a quarterly basis. LGD grades are assigned based on a scale of 1-12 and represent FHN s expected recovery based on collateral type in the event a loan defaults. See Note 5 Allowance for Loan Losses for further discussion on the credit grading system.

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**Note 4 Loans (Continued)**

The following tables provide the balances of commercial loan portfolio classes with associated allowance, disaggregated by PD grade as of September 30, 2014 and 2013.

| | September 30, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | General C&I | Loans to Mortgage Companies | TRUPS (a) | Income CRE | Residential CRE | Total | Percentage of Total | Allowance for Loan Losses |
| PD Grade: | | | | | | | | |
| 1 | $ 441,590 | $ | $ | $ 221 | $ 63 | $ 441,874 | 5% | $ |
| 2 | 355,805 | | | 2,854 | 244 | 358,903 | 4 | 338 |
| 3 | 412,110 | 46,838 | | 28,750 | 93 | 487,791 | 5 | 264 |
| 4 | 446,092 | 148,852 | | 28,815 | 296 | 624,055 | 6 | 671 |
| 5 | 947,041 | 177,435 | | 239,166 | 4,717 | 1,368,359 | 14 | 2,741 |
| 6 | 1,090,900 | 275,710 | | 184,961 | 5,579 | 1,557,150 | 16 | 1,790 |
| 7 | 1,178,283 | 193,667 | | 262,318 | 6,405 | 1,640,673 | 17 | 2,777 |
| 8 | 747,305 | 88,114 | | 183,145 | 4,195 | 1,022,759 | 10 | 2,339 |
| 9 | 540,472 | 18,251 | | 107,636 | 2,619 | 668,978 | 7 | 4,559 |
| 10 | 291,984 | 8,774 | | 39,306 | 1,216 | 341,280 | 3 | 4,001 |
| 11 | 314,927 | | | 33,214 | 2,825 | 350,966 | 4 | 7,538 |
| 12 | 106,550 | | | 29,250 | 928 | 136,728 | 1 | 1,383 |
| 13 | 115,198 | | 325,882 | 8,085 | 1,938 | 451,103 | 5 | 6,716 |
| 14,15,16 | 153,611 | | | 37,882 | 4,915 | 196,408 | 2 | 40,279 |
| Collectively evaluated for impairment | 7,141,868 | 957,641 | 325,882 | 1,185,603 | 36,033 | 9,647,027 | 99 | 75,396 |
| Individually evaluated for impairment | 33,987 | | 12,875 | 15,554 | 6,811 | 69,227 | 1 | 7,143 |
| Purchased credit-impaired loans | 5,076 | | | 32,588 | 1,805 | 39,469 | | 2,781 |
| Total commercial loans | $ 7,180,931 | $ 957,641 | $ 338,757 | $ 1,233,745 | $ 44,649 | $ 9,755,723 | 100% | $ 85,320 |

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**Note 4 Loans (Continued)**

| | September 30, 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | General C&I | Loans to Mortgage Companies | TRUPS (a) | Income CRE | Residential CRE | Total | Percent of Total | Allowance for Loan Losses |
| PD Grade: | | | | | | | | |
| 1 | $ 228,555 | $ | $ | $ | $ | $ 228,555 | 3% | $ 81 |
| 2 | 179,955 | | | | | 179,955 | 2 | 79 |
| 3 | 194,880 | | | 2,687 | | 197,567 | 2 | 224 |
| 4 | 311,097 | | | | | 311,097 | 4 | 517 |
| 5 | 790,748 | | | 11,823 | 216 | 802,787 | 9 | 1,363 |
| 6 | 938,609 | 40,200 | | 44,311 | 286 | 1,023,406 | 12 | 1,973 |
| 7 | 1,125,031 | 202,128 | | 228,814 | 9,978 | 1,565,951 | 17 | 3,377 |
| 8 | 881,668 | 308,282 | | 202,417 | 5,058 | 1,397,425 | 16 | 4,895 |
| 9 | 615,180 | 152,275 | | 203,308 | 1,499 | 972,262 | 11 | 7,981 |
| 10 | 451,318 | 29,008 | | 139,026 | 1,066 | 620,418 | 7 | 8,640 |
| 11 | 399,082 | 473 | | 69,945 | 277 | 469,777 | 5 | 10,338 |
| 12 | 124,916 | | | 57,534 | 1,224 | 183,674 | 2 | 2,425 |
| 13 | 159,675 | | 332,707 | 33,439 | 1,324 | 527,145 | 6 | 8,596 |
| 14,15,16 | 172,346 | 335 | 3,335 | 73,737 | 10,033 | 259,786 | 3 | 34,601 |
| Collectively evaluated for impairment | 6,573,060 | 732,701 | 336,042 | 1,067,041 | 30,961 | 8,739,805 | 99 | 85,090 |
| Individually evaluated for impairment | 65,865 | | 36,864 | 23,213 | 7,053 | 132,995 | 1 | 17,283 |
| Total commercial loans (b) | $ 6,638,925 | $ 732,701 | $ 372,906 | $ 1,090,254 | $ 38,014 | $ 8,872,800 | 100% | $ 102,373 |

(a) Balances as of September 30, 2014 and 2013, presented net of $26.2 million and $29.4 million, respectively, in lower of cost or market ( LOCOM ) valuation allowance. Based on the underlying structure of the notes, the highest possible internal grade is 13 .

(b) September 30, 2013 table excludes PCI loans.

The retail portfolio is comprised primarily of smaller-balance loans which are very similar in nature in that most are standard products and are backed by residential real estate. Because of the similarities of retail loan-types, FHN is able to utilize the Fair Isaac Corporation ( FICO ) score, among other attributes, to assess the quality of consumer borrowers. FICO scores are refreshed on a quarterly basis in an attempt to reflect the recent risk profile of the borrowers. Accruing delinquency amounts are indicators of asset quality within the credit card and other retail portfolio.

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**Note 4 Loans (Continued)**

The following tables reflect period end balances and average FICO scores by origination vintage for the HELOC, real estate installment, and permanent mortgage classes of loans as of September 30, 2014 and 2013:

| **HELOC** | **September 30, 2014** | | | September 30, 2013 | | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | | **Average** | **Average** | | Average | Average |
| | **Period End** | **Origination** | **Refreshed** | Period End | Origination | Refreshed |
| **Origination Vintage** | **Balance** | **FICO** | **FICO** | Balance | FICO | FICO |
| pre-2003 | **$ 61,659** | **708** | **703** | $ 88,416 | 711 | 702 |
| 2003 | **111,031** | **722** | **709** | 163,576 | 728 | 714 |
| 2004 | **312,590** | **724** | **711** | 421,542 | 727 | 717 |
| 2005 | **476,226** | **732** | **722** | 548,756 | 733 | 720 |
| 2006 | **351,818** | **740** | **727** | 400,023 | 741 | 725 |
| 2007 | **369,635** | **744** | **729** | 421,964 | 744 | 728 |
| 2008 | **200,908** | **753** | **748** | 233,642 | 754 | 747 |
| 2009 | **105,576** | **752** | **743** | 121,555 | 750 | 744 |
| 2010 | **100,727** | **754** | **749** | 120,022 | 753 | 750 |
| 2011 | **100,842** | **759** | **753** | 119,553 | 758 | 754 |
| 2012 | **121,149** | **759** | **757** | 145,507 | 759 | 759 |
| 2013 | **158,256** | **759** | **760** | 111,976 | 762 | 761 |
| 2014 | **87,878** | **761** | **761** | | | |
| Total | **$ 2,558,295** | **741** | **732** | $ 2,896,532 | 741 | 730 |

| **R/E Installment Loans** | **September 30, 2014** | | | September 30, 2013 | | |
|---|---|---|---|---|---|---|
| | | **Average** | **Average** | | Average | Average |
| *(Dollars in thousands)* | **Period End** | **Origination** | **Refreshed** | Period End | Origination | Refreshed |
| **Origination Vintage** | **Balance** | **FICO** | **FICO** | Balance | FICO | FICO |
| pre-2003 | **$ 16,278** | **680** | **684** | $ 26,603 | 682 | 684 |
| 2003 | **55,361** | **715** | **724** | 81,915 | 716 | 725 |
| 2004 | **44,484** | **700** | **697** | 58,244 | 701 | 699 |
| 2005 | **132,276** | **715** | **713** | 170,742 | 717 | 711 |
| 2006 | **143,601** | **714** | **701** | 183,847 | 716 | 701 |
| 2007 | **211,780** | **723** | **709** | 264,851 | 725 | 709 |
| 2008 | **67,730** | **721** | **715** | 91,883 | 723 | 720 |
| 2009 | **31,524** | **739** | **728** | 39,549 | 742 | 736 |
| 2010 | **107,417** | **748** | **755** | 131,004 | 747 | 754 |
| 2011 | **296,440** | **760** | **759** | 347,315 | 761 | 761 |
| 2012 | **628,622** | **764** | **765** | 707,972 | 764 | 764 |
| 2013 | **486,553** | **756** | **757** | 457,590 | 758 | 754 |
| 2014 | **350,627** | **755** | **754** | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | **$ 2,572,693** | **748** | **746** | $ 2,561,515 | 746 | 742 |

| **Permanent Mortgage** | **September 30, 2014** | | | September 30, 2013 | | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* **Origination Vintage** | **Period End Balance** | **Average Origination FICO** | **Average Refreshed FICO** | Period End Balance | Average Origination FICO | Average Refreshed FICO |
| pre-2004 | **$ 161,037** | **724** | **723** | $ 205,111 | 725 | 725 |
| 2004 | **18,190** | **713** | **713** | 24,595 | 712 | 693 |
| 2005 | **35,503** | **737** | **733** | 41,643 | 738 | 712 |
| 2006 | **65,722** | **731** | **734** | 81,932 | 731 | 711 |
| 2007 | **201,640** | **734** | **735** | 236,819 | 733 | 710 |
| 2008 | **90,697** | **742** | **736** | 107,594 | 741 | 714 |
| Total | **$ 572,789** | **730** | **731** | $ 697,694 | 731 | 713 |

**Note 4 Loans (Continued)**

**Nonaccrual and Past Due Loans**

For all portfolio segments and classes other than PCI loans, loans are placed on nonaccrual status if it becomes evident that full collection of principal and interest is at risk, impairment has been recognized as a partial charge-off of principal balance, or on a case-by-case basis if FHN continues to receive payments, but there are atypical loan structures or other borrower-specific issues. PCI loans are classified in the table below as accruing because of the accretion of interest. FHN has a meaningful portion of loans that are classified as nonaccrual even though loan payments are being received; these include residential real estate loans where the borrower has been discharged of personal obligation through bankruptcy, and also current second lien loans behind first lien loans with performance issues. The determination of whether a TDR is placed on nonaccrual status generally follows the same internal policies and procedures as other portfolio loans. However, FHN will typically place a consumer real estate loan on nonaccrual status if it is 30 or more days delinquent at the time of modification and is determined to be a TDR, except for residential real estate secured loans discharged in bankruptcy ( discharged bankruptcies ) that are placed on nonaccrual regardless of delinquency status. Current stand-alone second liens are placed on nonaccrual status if they are junior to first liens that are 90 days or more past due or the first lien has been modified into a TDR.

The following table reflects accruing and non-accruing loans by class on September 30, 2014:

| | | Accruing | | | | Non-Accruing | | | |
|---|---|---|---|---|---|---|---|---|---|
| *llars in thousands)* | **Current** | **30-89 Days Past Due** | **90+ Days Past Due** | **Total Accruing** | **Current** | **30-89 Days Past Due** | **90+ Days Past Due** | **Total Non-Accruing** | **Total Loans** |
| **mmercial (C&I):** | | | | | | | | | |
| neral C&I | $ 7,140,246 | $ 5,515 | $ 1,717 | **$ 7,147,478** | $ 5,603 | $ 1,469 | $ 21,305 | **$ 28,377** | **$ 7,175,8** |
| ns to mortgage npanies | 956,861 | 650 | | **957,511** | | | 130 | **130** | **957,6** |
| UPS (a) | 325,882 | | | **325,882** | 12,875 | | | **12,875** | **338,7** |
| chased dit-impaired loans | 4,710 | 366 | | **5,076** | | | | | **5,0** |
| al commercial zI) | 8,427,699 | 6,531 | 1,717 | **8,435,947** | 18,478 | 1,469 | 21,435 | **41,382** | **8,477,3** |
| **mmercial real ate:** | | | | | | | | | |
| ome CRE | 1,186,595 | 2,781 | | **1,189,376** | 217 | 1,068 | 10,496 | **11,781** | **1,201,1** |
| idential CRE | 40,249 | 189 | | **40,438** | 1,254 | | 1,152 | **2,406** | **42,8** |
| chased dit-impaired loans | 33,185 | 669 | 539 | **34,393** | | | | | **34,3** |
| | 1,260,029 | 3,639 | 539 | **1,264,207** | 1,471 | 1,068 | 11,648 | **14,187** | **1,278,3** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| al commercial real ate | | | | | | | | | |
| **nsumer real ate:** | | | | | | | | | |
| LOC | 2,437,982 | 23,816 | 11,645 | **2,473,443** | 68,785 | 5,784 | 10,283 | **84,852** | **2,558,2** |
| installment loans | 2,515,705 | 12,721 | 4,965 | **2,533,391** | 29,306 | 2,585 | 6,768 | **38,659** | **2,572,0** |
| chased dit-impaired loans | 643 | | | **643** | | | | | **6** |
| al consumer real ate | 4,954,330 | 36,537 | 16,610 | **5,007,477** | 98,091 | 8,369 | 17,051 | **123,511** | **5,130,9** |
| **manent mortgage** | 523,150 | 7,635 | 8,030 | **538,815** | 15,215 | 4,063 | 14,696 | **33,974** | **572,7** |
| **edit card & other** | | | | | | | | | |
| dit card | 184,650 | 1,900 | 1,822 | **188,372** | | | | | **188,3** |
| er | 162,088 | 1,190 | 164 | **163,442** | | | 692 | **692** | **164,1** |
| chased dit-impaired loans | 11 | | | **11** | | | | | |
| al credit card & er | 346,749 | 3,090 | 1,986 | **351,825** | | | 692 | **692** | **352,5** |
| **al loans, net of earned** | $ 15,511,957 | $ 57,432 | $ 28,882 | **$ 15,598,271** | $ 133,255 | $ 14,969 | $ 65,522 | **$ 213,746** | **$ 15,812,0** |

(a) Total TRUPS includes LOCOM valuation allowance of $26.2 million.

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**Note 4 Loans (Continued)**

The following table reflects accruing and non-accruing loans by class on September 30, 2013:

| | Accruing | | | | Non-Accruing | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Dollars in thousands) | Current | 30-89 Days Past Due | 90+ Days Past Due | Total Accruing | Current | 30-89 Days Past Due | 90+ Days Past Due | Total Non-Accruing | Total Loans |
| **ommercial (C&I):** | | | | | | | | | |
| eneral C&I | $ 6,560,688 | $ 7,314 | $ 95 | **$ 6,568,097** | $ 33,582 | $ 3,610 | $ 28,334 | **$ 65,526** | **$ 6,633,623** |
| oans to mortgage ompanies | 731,684 | 682 | | **732,366** | | | 335 | **335** | **732,701** |
| RUPS (a) | 336,042 | | | **336,042** | | | 36,864 | **36,864** | **372,906** |
| urchased redit-impaired loans | 7,092 | 468 | 152 | **7,712** | | | | | **7,712** |
| otal commercial C&I) | 7,635,506 | 8,464 | 247 | **7,644,217** | 33,582 | 3,610 | 65,533 | **102,725** | **7,746,942** |
| **ommercial real state:** | | | | | | | | | |
| ncome CRE | 1,071,839 | 5,438 | 435 | **1,077,712** | 6,791 | | 13,802 | **20,593** | **1,098,305** |
| esidential CRE | 31,189 | 177 | | **31,366** | 285 | | 4,110 | **4,395** | **35,761** |
| urchased redit-impaired loans | 38,595 | 637 | 413 | **39,645** | | | | | **39,645** |
| otal commercial real state | 1,141,623 | 6,252 | 848 | **1,148,723** | 7,076 | | 17,912 | **24,988** | **1,173,711** |
| **onsumer real state:** | | | | | | | | | |
| ELOC | 2,778,336 | 24,072 | 12,641 | **2,815,049** | 61,733 | 5,521 | 14,229 | **81,483** | **2,896,532** |
| /E installment loans | 2,499,522 | 14,156 | 6,475 | **2,520,153** | 29,549 | 3,048 | 7,877 | **40,474** | **2,560,627** |
| urchased redit-impaired loans | 888 | | | **888** | | | | | **888** |
| otal consumer real state | 5,278,746 | 38,228 | 19,116 | **5,336,090** | 91,282 | 8,569 | 22,106 | **121,957** | **5,458,047** |
| **ermanent mortgage** | 643,385 | 5,097 | 12,239 | **660,721** | 13,518 | 1,321 | 22,134 | **36,973** | **697,694** |
| **redit card & other** | | | | | | | | | |
| redit card | 186,749 | 1,480 | 1,258 | **189,487** | | | | | **189,487** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Other | 140,320 | 803 | 138 | **141,261** | 1,399 | | | **1,399** | **142,660** |
| Purchased credit-impaired loans | 15 | | | **15** | | | | | **15** |
| Total credit card & other | 327,084 | 2,283 | 1,396 | **330,763** | 1,399 | | | **1,399** | **332,162** |
| **Total loans, net of unearned** | $ 15,026,344 | $ 60,324 | $ 33,846 | **$ 15,120,514** | $ 146,857 | $ 13,500 | $ 127,685 | **$ 288,042** | **$ 15,408,556** |

(a) Total TRUPS includes LOCOM valuation allowance of $29.4 million.

**Troubled Debt Restructurings**

As part of FHN s ongoing risk management practices, FHN attempts to work with borrowers when necessary to extend or modify loan terms to better align with their current ability to repay. Extensions and modifications to loans are made in accordance with internal policies and guidelines which conform to regulatory guidance. Each occurrence is unique to the borrower and is evaluated separately. FHN considers regulatory guidelines when restructuring loans to ensure that prudent lending practices are followed. As such, qualification criteria and payment terms consider the borrower s current and prospective ability to comply with the modified terms of the loan.

A modification is classified as a TDR if the borrower is experiencing financial difficulty and it is determined that FHN has granted a concession to the borrower. FHN may determine that a borrower is experiencing financial difficulty if the borrower is currently in default on any of its debt, or if it is probable that a borrower may default in the foreseeable future. Many aspects of a borrower s financial situation are assessed when determining whether they are experiencing financial difficulty, particularly as it relates to commercial borrowers due to the complex nature of loan structures, business/industry risk, and borrower/guarantor structures. Concessions could include extension of the maturity date, reductions of the interest rate (which may make the rate lower than current market for a new loan with similar risk), reduction of accrued interest, or principal forgiveness. When evaluating whether a concession has been granted, FHN also considers whether the borrower has provided additional collateral or guarantors, among other things, and whether such additions adequately compensate FHN for the restructured terms. The assessments of whether a borrower is experiencing (or is likely to experience) financial difficulty and whether a concession has been granted is subjective in nature and management s judgment is required when determining whether a modification is classified as a TDR.

For all classes within the commercial portfolio segment, TDRs are typically modified through forbearance agreements (generally 6 to 12 months). Forbearance agreements could include reduced interest rates, reduced payments, release of guarantor, or entering into short sale agreements. FHN s proprietary modification programs for consumer loans are generally structured using parameters of U.S. government-sponsored programs such as Home Affordable Modification Program ( HAMP ). Within the HELOC and R/E installment loans classes of the consumer portfolio segment, TDRs are typically modified by reducing the interest rate (in increments

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**Note 4 Loans (Continued)**

of 25 basis points to a minimum of 1 percent for up to 5 years) and a possible maturity date extension to reach an affordable housing debt ratio. Permanent mortgage TDRs are typically modified by reducing the interest rate (in increments of 25 basis points to a minimum of 2 percent for up to 5 years) and a possible maturity date extension to reach an affordable housing debt ratio. After 5 years the interest rate steps up 1 percent every year thereafter until it reaches the Federal Home Loan Mortgage Corporation ( Freddie Mac, Freddie, or FHLMC ) Weekly Survey Rate cap. Contractual maturities may be extended to 40 years on permanent mortgages and to 30 years for consumer real estate loans. Within the credit card class of the consumer portfolio segment, TDRs are typically modified through either a short-term credit card hardship program or a longer-term credit card workout program. In the credit card hardship program, borrowers may be granted rate and payment reductions for 6 months to 1 year. In the credit card workout program, customers are granted a rate reduction to 0 percent and term extensions for up to 5 years to pay off the remaining balance.

Despite the absence of a loan modification, the discharge of personal liability through bankruptcy proceedings is considered a concession and as a result, FHN classifies all non-reaffirmed residential real estate loans after bankruptcy as nonaccruing TDRs.

On September 30, 2014 and 2013, FHN had $346.0 million and $369.4 million portfolio loans classified as TDRs, respectively. For TDRs in the loan portfolio, FHN had loan loss reserves of $60.9 million and $61.3 million, or 18 percent as of September 30, 2014, and 17 percent as of September 30, 2013. Additionally, $83.1 million and $133.9 million of loans held-for-sale as of September 30, 2014 and 2013, respectively were classified as TDRs.

The following table reflects portfolio loans that were classified as TDRs during the three and nine months ended September 30, 2014 and 2013:

| | Three Months Ended September 30, 2014 | | | Nine Months Ended September 30, 2014 | | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | **Number** | **Pre-Modification Outstanding Recorded Investment** | **Post-Modification Outstanding Recorded Investment** | **Number** | **Pre-Modification Outstanding Recorded Investment** | **Post-Modification Outstanding Recorded Investment** |
| **Commercial (C&I):** | | | | | | |
| General C&I | 2 | $ 1,031 | $ 970 | 4 | $ 1,767 | $ 1,492 |
| Total commercial (C&I) | 2 | 1,031 | 970 | 4 | 1,767 | 1,492 |
| **Commercial real estate:** | | | | | | |
| Income CRE | | | | 2 | 421 | 421 |
| Residential CRE | | | | 1 | 976 | 960 |
| Total commercial real estate | | | | 3 | 1,397 | 1,381 |
| **Consumer real estate:** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| HELOC | **89** | **6,930** | **6,883** | **253** | **20,999** | **21,208** |
| R/E installment loans | **21** | **1,269** | **1,255** | **138** | **9,544** | **9,450** |
| Total consumer real estate | **110** | **8,199** | **8,138** | **391** | **30,543** | **30,658** |
| **Permanent mortgage** | **6** | **1,639** | **1,672** | **30** | **8,314** | **7,839** |
| **Credit card & other** | **16** | **107** | **103** | **50** | **254** | **245** |
| **Total troubled debt restructurings** | **134** | **$ 10,976** | **$ 10,883** | **478** | **$ 42,275** | **$ 41,615** |

| | Three Months Ended September 30, 2013 | | | Nine Months Ended September 30, 2013 | | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Number | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| **Commercial (C&I):** | | | | | | |
| General C&I | 2 | $ 1,161 | $ 1,134 | 10 | $ 17,350 | $ 17,313 |
| Total commercial (C&I) | 2 | 1,161 | 1,134 | 10 | 17,350 | 17,313 |
| **Commercial real estate:** | | | | | | |
| Income CRE | | | | 1 | 288 | 288 |
| Residential CRE | | | | | | |
| Total commercial real estate | | | | 1 | 288 | 288 |
| **Consumer real estate:** | | | | | | |
| HELOC | 72 | 5,212 | 5,194 | 279 | 21,729 | 21,479 |
| R/E installment loans | 70 | 4,589 | 4,541 | 346 | 24,264 | 24,100 |
| Total consumer real estate | 142 | 9,801 | 9,735 | 625 | 45,993 | 45,579 |
| **Permanent mortgage** | 15 | 3,864 | 4,074 | 41 | 16,907 | 17,311 |
| **Credit card & other** | 13 | 44 | 39 | 41 | 198 | 187 |
| **Total troubled debt restructurings** | 172 | $ 14,870 | $ 14,982 | 718 | $ 80,736 | $ 80,678 |

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**Note 4 Loans (Continued)**

The following table presents TDRs which re-defaulted during the three and nine months ended September 30, 2014 and 2013, and as to which the modification occurred 12 months or less prior to the re-default. Financing receivables that became classified as TDRs within the previous 12 months and for which there was a payment default during the period are calculated by first identifying TDRs that defaulted during the period and then determining whether they were modified within the 12 months prior to the default. For purposes of this disclosure, FHN generally defines payment default as 30 or more plus days past due.

| | **Three Months Ended September 30, 2014** | | **Nine Months Ended September 30, 2014** | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **Number** | **Recorded Investment** | **Number** | **Recorded Investment** |
| **Commercial (C&I):** | | | | |
| General C&I | **2** | **$ 59** | **4** | **$ 512** |
| Total commercial (C&I) | **2** | **59** | **4** | **512** |
| **Commercial real estate:** | | | | |
| Income CRE | **1** | **2,570** | **3** | **2,959** |
| Residential CRE | | | | |
| Total commercial real estate | **1** | **2,570** | **3** | **2,959** |
| **Consumer real estate:** | | | | |
| HELOC | **2** | **212** | **6** | **374** |
| R/E installment loans | **1** | **132** | **8** | **500** |
| Total consumer real estate | **3** | **344** | **14** | **874** |
| **Permanent mortgage** | **1** | **347** | **3** | **1,128** |
| **Credit card & other** | | | **2** | **4** |
| **Total troubled debt restructurings** | **7** | **$ 3,320** | **26** | **$ 5,477** |

| | Three Months Ended September 30, 2013 | | Nine Months Ended September 30, 2013 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | Number | Recorded Investment | Number | Recorded Investment |
| **Commercial (C&I):** | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| General C&I | 6 | $ | 1,870 | 8 | $ | 5,977 |
| Total commercial (C&I) | 6 | | 1,870 | 8 | | 5,977 |
| **Commercial real estate:** | | | | | | |
| Income CRE | 3 | | 750 | 4 | | 1,548 |
| Residential CRE | | | | 1 | | 33 |
| Total commercial real estate | 3 | | 750 | 5 | | 1,581 |
| **Consumer real estate:** | | | | | | |
| HELOC | 1 | | 35 | 10 | | 512 |
| R/E installment loans | 3 | | 229 | 6 | | 350 |
| Total consumer real estate | 4 | | 264 | 16 | | 862 |
| **Permanent mortgage** | 4 | | 2,071 | 14 | | 6,507 |
| **Credit card & other** | 8 | | 34 | 15 | | 61 |
| **Total troubled debt restructurings** | 25 | $ | 4,989 | 58 | $ | 14,988 |

The determination of whether a TDR is placed on nonaccrual status generally follows the same internal policies and procedures as other portfolio loans. However, FHN will typically place a consumer real estate loan on nonaccrual status if it is 30 or more days delinquent upon modification into a TDR. For commercial loans, nonaccrual TDRs that are reasonably assured of repayment according to their modified terms may be returned to accrual status by FHN upon a detailed credit evaluation of the borrower s financial condition and prospects for repayment under the revised terms. For consumer loans, FHN s evaluation supporting the decision to return a modified loan to accrual status includes consideration of the borrower s sustained historical repayment performance for a reasonable period prior to the date on which the loan is returned to accrual status, which is generally a minimum of six months. FHN may also consider a borrower s sustained historical repayment performance for a reasonable time prior to the restructuring in assessing whether the borrower can meet the restructured terms, as it may indicate that the borrower is capable of servicing the level of debt under the modified terms. Otherwise, FHN will continue to classify restructured loans as nonaccrual. Consistent with regulatory guidance, upon sustained performance and classification as a TDR over FHN s year-end, the loan will be removed from TDR status as long as the modified terms were market-based at the time of modification.

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## Note 5 Allowance for Loan Losses

The ALLL includes the following components: reserves for commercial loans evaluated based on pools of credit graded loans and reserves for pools of smaller-balance homogeneous retail loans, both determined in accordance with ASC 450-20-50. The reserve factors applied to these pools are an estimate of probable incurred losses based on management s evaluation of historical net losses from loans with similar characteristics and are subject to qualitative adjustments by management to reflect current events, trends, and conditions (including economic considerations and trends). The slow economic recovery, performance of the housing market, unemployment levels, labor participation rate, the regulatory environment, regulatory guidance, and both positive and negative portfolio segment-specific trends, are examples of additional factors considered by management in determining the ALLL. Additionally, management considers the inherent uncertainty of quantitative models that are driven by historical loss data. The ALLL also includes reserves determined in accordance with ASC 310-10-35 for loans determined by management to be individually impaired and an allowance associated with PCI loans.

### Commercial

For commercial loans, reserves are established using historical net loss factors by grade level, loan product, and business segment. An assessment of the quality of individual commercial loans is made utilizing credit grades assigned internally based on a dual grading system which estimates both the PD and loss severity in the event of default. PD grades range from 1-16 while estimated loss severities, or LGD grades, range from 1-12. This credit grading system is intended to identify and measure the credit quality of the loan portfolio by analyzing the migration of loans between grading categories. It is also integral to the estimation methodology utilized in determining the allowance for loan losses since an allowance is established for pools of commercial loans based on the credit grade assigned. The appropriate relationship team performs the process of categorizing commercial loans into the appropriate credit grades, initially as a component of the approval of the loan, and subsequently throughout the life of the loan as part of the servicing regimen. The proper loan grade for larger exposures is confirmed by a senior credit officer in the approval process. To determine the most appropriate credit grade for each loan, the credit risk grading system employs scorecards for particular categories of loans that consist of a number of objective and subjective measures that are weighted in a manner that produces a rank ordering of risk within pass-graded credits. Loan grading discipline is regularly reviewed by Credit Risk Assurance to determine if the process continues to result in accurate loan grading across the portfolio. FHN may utilize availability of guarantors/sponsors to support lending decisions during the credit underwriting process and when determining the assignment of internal loan grades.

### Retail

The ALLL for smaller-balance homogenous retail loans is determined based on pools of similar loan types that have similar credit risk characteristics. FHN manages retail loan credit risk on a class basis. Reserves by portfolio are determined using segmented roll-rate models that incorporate various factors including historical delinquency trends, experienced loss frequencies, and experienced loss severities. Generally, reserves for retail loans reflect inherent losses in the portfolio that are expected to be recognized over the following twelve months.

### Individually Impaired

Generally, classified nonaccrual commercial loans over $1 million and all commercial and consumer loans classified as TDRs are deemed to be impaired and are individually assessed for impairment measurement in accordance with ASC 310-10-35. For all commercial portfolio segments, TDRs and other individually impaired commercial loans are measured based on the present value of expected future payments discounted at the loan s effective interest rate (the DCF method ), observable market prices, or for loans that are solely dependent on the collateral for repayment, the net realizable value. For loans measured using the DCF method or by observable market prices, if the recorded investment in the impaired loan exceeds this amount, a specific allowance is established as a component of the ALLL until such time as a loss is expected and recognized; for impaired collateral-dependent loans, FHN will charge off the full difference between the book value and the best estimate of net realizable value.

Generally, the allowance for TDRs in all consumer portfolio segments is determined by estimating the expected future cash flows using the modified interest rate (if an interest rate concession), incorporating payoff and net charge-off rates specific to the TDRs within the portfolio segment being assessed, and discounted using the pre-modification interest rate. The discount rates of variable rate TDRs are adjusted to reflect changes in the interest rate index to which the rates are tied. The discounted cash flows are then compared to the outstanding principal balance in order to determine required reserves. Residential real estate loans discharged through bankruptcy are collateral-dependent and are charged down to net realizable value.

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**Note 5 Allowance for Loan Losses (Continued)**

The following table provides a rollforward of the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2014 and 2013:

| *(Dollars in thousands)* | C&I | Commercial Real Estate | Consumer Real Estate | Permanent Mortgage | Credit Card and Other | Total |
|---|---|---|---|---|---|---|
| Balance as of July 1, 2013 | $ 93,502 | $ 13,931 | $ 120,848 | $ 27,103 | $ 6,550 | $ 261,934 |
| Charge-offs | (4,869) | (515) | (16,412) | (1,366) | (2,884) | (26,046) |
| Recoveries | 3,242 | 587 | 4,398 | 841 | 754 | 9,822 |
| Provision | (495) | (3,010) | 11,992 | (1,022) | 2,535 | 10,000 |
| Balance as of September 30, 2013 | 91,380 | 10,993 | 120,826 | 25,556 | 6,955 | 255,710 |
| Balance as of January 1, 2013 | $ 96,191 | $ 19,997 | $ 128,949 | $ 24,928 | $ 6,898 | $ 276,963 |
| Charge-offs | (16,201) | (2,612) | (58,792) | (6,577) | (8,236) | (92,418) |
| Recoveries | 9,839 | 2,703 | 14,932 | 1,609 | 2,082 | 31,165 |
| Provision | 1,551 | (9,095) | 35,737 | 5,596 | 6,211 | 40,000 |
| Balance as of September 30, 2013 | 91,380 | 10,993 | 120,826 | 25,556 | 6,955 | 255,710 |
| Allowance individually evaluated for impairment | 15,702 | 1,581 | 38,426 | 18,646 | 212 | 74,567 |
| Allowance collectively evaluated for impairment | 75,678 | 9,412 | 82,400 | 6,910 | 6,743 | 181,143 |
| Loans, net of unearned as of September 30, 2013: | | | | | | |
| Individually evaluated for impairment | 102,729 | 30,266 | 170,401 | 128,124 | 648 | 432,168 |
| Collectively evaluated for impairment | 7,636,501 | 1,103,800 | 5,286,758 | 569,570 | 331,499 | 14,928,128 |
| Purchased credit-impaired loans (a) | 7,712 | 39,645 | 888 | | 15 | 48,260 |
| Total loans, net of unearned | $ 7,746,942 | $ 1,173,711 | $ 5,458,047 | $ 697,694 | $ 332,162 | $ 15,408,556 |
| **Balance as of July 1, 2014** | **$ 68,591** | **$ 15,821** | **$ 118,037** | **$ 23,727** | **$ 17,452** | **$ 243,628** |
| **Charge-offs** | **(3,741)** | **(1,789)** | **(13,465)** | **(1,047)** | **(3,642)** | **(23,684)** |
| **Recoveries** | **5,219** | **312** | **5,669** | **686** | **811** | **12,697** |
| **Provision** | **(199)** | **1,106** | **8,154** | **(3,145)** | **84** | **6,000** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Balance as of September 30, 2014** | **69,870** | **15,450** | **118,395** | **20,221** | **14,705** | **238,641** |
| **Balance as of January 1, 2014** | **$ 86,446** | **$ 10,603** | **$ 126,785** | **$ 22,491** | **$ 7,484** | **$ 253,809** |
| **Charge-offs** | **(14,997)** | **(3,163)** | **(33,803)** | **(4,144)** | **(11,033)** | **(67,140)** |
| **Recoveries** | **8,338** | **2,323** | **16,113** | **1,958** | **2,240** | **30,972** |
| **Provision** | **(9,917)** | **5,687** | **9,300** | **(84)** | **16,014** | **21,000** |
| **Balance as of September 30, 2014** | **69,870** | **15,450** | **118,395** | **20,221** | **14,705** | **238,641** |
| **Allowance individually evaluated for impairment** | **6,039** | **1,104** | **41,492** | **17,329** | **255** | **66,219** |
| **Allowance collectively evaluated for impairment** | **63,783** | **11,613** | **76,845** | **2,892** | **14,450** | **169,583** |
| **Allowance purchased credit-impaired loans** | **48** | **2,733** | **58** | | | **2,839** |
| **Loans, net of unearned as of September 30, 2014:** | | | | | | |
| **Individually evaluated for impairment** | **46,862** | **22,365** | **174,532** | **118,537** | **548** | **362,844** |
| **Collectively evaluated for impairment** | **8,425,391** | **1,221,636** | **4,955,813** | **454,252** | **351,958** | **15,409,050** |
| **Purchased credit-impaired loans** | **5,076** | **34,393** | **643** | | **11** | **40,123** |
| **Total loans, net of unearned** | **$ 8,477,329** | **$ 1,278,394** | **$ 5,130,988** | **$ 572,789** | **$ 352,517** | **$ 15,812,017** |

Certain previously reported amounts have been reclassified to agree with current presentation.

(a) September 30, 2013 balances by portfolio have been re-presented to agree with current presentation.

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## Note 6 Mortgage Servicing Rights

FHN recognizes all classes of mortgage servicing rights ( MSR ) at fair value. Classes of MSR are established based on market inputs used to determine the fair value of the servicing asset and FHN s risk management practices. See Note 17 Fair Value of Assets & Liabilities, the Determination of Fair Value section for a discussion of FHN s MSR valuation methodology. In third quarter 2013, FHN agreed to sell substantially all remaining legacy mortgage servicing which resulted in de-recognition of substantially all first lien MSR by the end of first quarter 2014. Accordingly the rollforward of MSR is presented for the comparative period only. See Note 15 Derivatives for a discussion of how FHN hedged the fair value of MSR prior to signing the definitive sales agreement. The balance of MSR included on the Consolidated Condensed Statements of Condition represented the rights to service approximately $15 billion of mortgage loans on September 30, 2013, for which a servicing right had been capitalized.

Following is a summary of changes in capitalized MSR as of September 30, 2013:

| *(Dollars in thousands)* | First Liens | Second Liens | HELOC | Total |
|---|---|---|---|---|
| Fair value on January 1, 2013 | $ 111,314 | $ 196 | $ 2,801 | $ 114,311 |
| Reductions due to loan payments | (16,980) | (75) | (342) | (17,397) |
| Reductions due to exercise of cleanup calls | (495) | | | (495) |
| Changes in fair value due to: | | | | |
| Changes in valuation model inputs or assumptions | 20,267 | | | 20,267 |
| Other changes in fair value | (89) | 45 | 44 | |
| **Fair value on September 30, 2013** | **$ 114,017** | **$ 166** | **$ 2,503** | **$ 116,686** |

The ending balance of MSR as of September 30, 2014 was $2.9 million. In first quarter 2014, FHN sold $68.5 million of first lien MSR. Servicing, late, and other ancillary fees recognized within mortgage banking income were not material for the three months ended September 30, 2014. For the nine months ended September 30, 2014, servicing, late, and other ancillary fees recognized within mortgage banking income were $20.9 million and primarily represent previously unrecognized servicing fees in conjunction with servicing sales. Servicing, late, and other ancillary fees recognized within mortgage banking income were $10.9 million and $35.3 million for the three and nine months ended September 30, 2013, respectively. During third quarter 2013, FHN received annual servicing fees approximating .29 percent of the outstanding balance of underlying single-family residential mortgage loans and .34 percent inclusive of income related to excess interest.

In prior periods, FHN transferred MSR to third parties in transactions that did not qualify for sales treatment due to certain recourse provisions that were included within the sale agreements. In fourth quarter 2013, FHN determined that these provisions had lapsed and the balances related to these transactions were removed from FHN s Consolidated Condensed Statements of Condition. On September 30, 2013, FHN had $11.7 million of MSR related to these transactions, which were included within the first liens mortgage loans column of the rollforward of MSR. The proceeds from these transfers were recognized within Other short-term borrowings in the Consolidated Condensed Statements of Condition.

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## Note 7 Intangible Assets

The following is a summary of intangible assets, net of accumulated amortization, included in the Consolidated Condensed Statements of Condition:

| *(Dollars in thousands)* | Goodwill | Other Intangible Assets (a) |
|---|---|---|
| December 31, 2012 | $ 134,242 | $ 22,700 |
| Amortization expense | | (2,784) |
| Additions | 6,237 | 2,300 |
| September 30, 2013 | $ 140,479 | $ 22,216 |
| December 31, 2013 | $ 141,943 | $ 21,988 |
| Amortization expense | | (2,944) |
| **September 30, 2014** | **$ 141,943** | **$ 19,044** |

(a) Represents customer lists, acquired contracts, core deposit intangibles, and covenants not to compete.

The gross carrying amount of other intangible assets subject to amortization is $58.6 million on September 30, 2014, net of $39.6 million of accumulated amortization. Estimated aggregate amortization expense is expected to be $1.0 million for the remainder of 2014, and $3.7 million, $3.6 million, $3.3 million, $3.2 million, and $3.0 million for the twelve-month periods of 2015, 2016, 2017, 2018, and 2019, respectively.

The following is a summary of gross goodwill and accumulated impairment losses and write-offs detailed by reportable segments included in the Consolidated Condensed Statements of Condition through September 30, 2014. Gross goodwill, accumulated impairments, and accumulated divestiture related write-offs were determined beginning on January 1, 2002, when a change in accounting requirements resulted in goodwill being assessed for impairment rather than being amortized.

| *(Dollars in thousands)* | Non-Strategic | Regional Banking | Capital Markets | Total |
|---|---|---|---|---|
| Gross goodwill | $ 199,995 | $ 36,238 | $ 98,004 | $ 334,237 |
| Accumulated impairments | (114,123) | | | (114,123) |
| Accumulated divestiture related write-offs | (85,872) | | | (85,872) |
| December 31, 2012 | $ | $ 36,238 | $ 98,004 | $ 134,242 |
| Additions | | 6,237 | | 6,237 |
| Impairments | | | | |
| Divestitures | | | | |

| | | | | |
|---|---|---|---|---|
| Net change in goodwill during 2013 | | 6,237 | | 6,237 |
| Gross goodwill | $ 199,995 | $ 42,475 | $ 98,004 | $ 340,474 |
| Accumulated impairments | (114,123) | | | (114,123) |
| Accumulated divestiture related write-offs | (85,872) | | | (85,872) |
| September 30, 2013 | $ | $ 42,475 | $ 98,004 | $ 140,479 |
| Gross goodwill | $ 199,995 | $ 43,939 | $ 98,004 | $ 341,938 |
| Accumulated impairments | (114,123) | | | (114,123) |
| Accumulated divestiture related write-offs | (85,872) | | | (85,872) |
| December 31, 2013 | $ | $ 43,939 | $ 98,004 | $ 141,943 |
| Additions | | | | |
| Impairments | | | | |
| Divestitures | | | | |
| Net change in goodwill during 2014 | | | | |
| Gross goodwill | $ 199,995 | $ 43,939 | $ 98,004 | $ 341,938 |
| Accumulated impairments | (114,123) | | | (114,123) |
| Accumulated divestiture related write-offs | (85,872) | | | (85,872) |
| **September 30, 2014** | **$** | **$ 43,939** | **$ 98,004** | **$ 141,943** |

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## Note 8 Other Income and Other Expense

Following is detail of All other income and commissions and All other expense as presented in the Consolidated Condensed Statements of Income:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **2014** | 2013 | **2014** | 2013 |
| **All other income and commissions:** | | | | |
| ATM interchange fees | **$ 2,739** | $ 2,680 | **$ 7,982** | $ 7,691 |
| Electronic banking fees | **1,560** | 1,607 | **4,629** | 4,754 |
| Letter of credit fees | **917** | 1,171 | **3,753** | 3,866 |
| Gain/(loss) on extinguishment of debt (a) | | | **(4,350)** | |
| Deferred compensation (b) | **(41)** | 2,160 | **1,800** | 3,475 |
| Other | **3,971** | 3,996 | **9,461** | 11,230 |
| Total | **$ 9,146** | $ 11,614 | **$ 23,275** | $ 31,016 |
| **All other expense:** | | | | |
| Litigation and regulatory matters | **$ 35,390** | $ 229 | **$ (2,720)** | $ 6,299 |
| Other insurance and taxes | **3,909** | 3,215 | **10,178** | 9,337 |
| Tax credit investments | **2,481** | 3,079 | **8,008** | 9,040 |
| Travel and entertainment | **2,164** | 2,400 | **6,633** | 6,620 |
| Customer relations | **1,406** | 1,204 | **4,329** | 3,737 |
| Employee training and dues | **1,194** | 1,244 | **3,260** | 3,727 |
| Supplies | **779** | 950 | **2,699** | 2,710 |
| Miscellaneous loan costs | **597** | 1,349 | **2,150** | 3,508 |
| Other | **13,709** | 8,961 | **31,856** | 23,775 |
| Total | **$ 61,629** | $ 22,631 | **$ 66,393** | $ 68,753 |

(a) Nine months ended September 30, 2014 loss is associated with the collapse of two HELOC securitization trusts.
(b) Deferred compensation market value adjustments are mirrored by adjustments to employee compensation, incentives, and benefits expense.

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## Note 9 Changes in Accumulated Other Comprehensive Income Balances

The following table provides the changes in accumulated other comprehensive income by component, net of tax, for the three and nine months ended September 30, 2014:

| *(Dollars in thousands, unless otherwise noted)* | Unrealized Gain/(Loss) On Securities Available-For-Sale | Pension and Post Retirement Plans | Total |
|---|---|---|---|
| Balance as of July 1, 2014 | $ 15,596 | $ (137,707) | $ (122,111) |
| Other comprehensive income before reclassifications, Net of tax benefit of $7.0 million for unrealized gain/(loss) on securities available-for-sale | (11,288) | | (11,288) |
| Amounts reclassified from accumulated other comprehensive income, Net of tax expense of $.3 million for pension and post retirement plans | | 564 | 564 |
| Net current period other comprehensive income, Net of tax benefit of $7.0 million and tax expense of $.3 million for unrealized gain/(loss) on securities available-for-sale and pension and post retirement plans, respectively | (11,288) | 564 | (10,724) |
| **Balance as of September 30, 2014** | **$ 4,308** | **$ (137,143)** | **$ (132,835)** |
| Balance as of January 1, 2014 | $ (11,241) | $ (138,768) | $ (150,009) |
| Other comprehensive income before reclassifications, Net of tax expense of $9.8 million for unrealized gain/(loss) on securities available-for-sale | 15,549 | | 15,549 |
| Amounts reclassified from accumulated other comprehensive income, Net of tax expense of $1.0 million for pension and post retirement plans | | 1,625 | 1,625 |
| Net current period other comprehensive income, Net of tax expense of $9.8 million and $1.0 million for unrealized gain/(loss) on securities available-for-sale and pension and post retirement plans, respectively | 15,549 | 1,625 | 17,174 |
| **Balance as of September 30, 2014** | **$ 4,308** | **$ (137,143)** | **$ (132,835)** |

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**Note 9 Changes in Accumulated Other Comprehensive Income Balances (Continued)**

The following table provides the changes in accumulated other comprehensive income by component, net of tax, for the three and nine months ended September 30, 2013:

| *(Dollars in thousands, unless otherwise noted)* | **Unrealized Gain/(Loss) On Securities Available-For-Sale** | **Pension and Post Retirement Plans** | **Total** |
|---|---|---|---|
| Balance as of July 1, 2013 | $ 9,439 | $ (198,104) | $ (188,665) |
| Other comprehensive income before reclassifications, Net of tax expense of $1.1 million and $5.6 million for unrealized gain/(loss) on securities available-for-sale and pension and post retirement plans, respectively | 1,714 | 8,907 | 10,621 |
| Amounts reclassified from accumulated other comprehensive income, Net of tax expense of $1.0 million for pension and post retirement plans | | 1,653 | 1,653 |
| Net current period other comprehensive income, Net of tax expense of $1.1 million and $6.6 million for unrealized gain/(loss) on securities available-for-sale and pension and post retirement plans, respectively | 1,714 | 10,560 | 12,274 |
| Balance as of September 30, 2013 | $ 11,153 | $ (187,544) | $ (176,391) |
| Balance as of January 1, 2013 | $ 55,250 | $ (201,593) | $ (146,343) |
| Other comprehensive income before reclassifications, Net of tax benefit of $27.6 million and tax expense of $5.7 million for unrealized gain/(loss) on securities available-for-sale and pension and post retirement plans, respectively | (44,097) | 9,076 | (35,021) |
| Amounts reclassified from accumulated other comprehensive income, Net of tax expense of $3.1 million for pension and post retirement plans | | 4,973 | 4,973 |
| Net current period other comprehensive income, Net of tax benefit of $27.6 million and tax expense of $8.8 million for unrealized gain/(loss) on securities available-for-sale and pension and post retirement plans, respectively | (44,097) | 14,049 | (30,048) |
| Balance as of September 30, 2013 | $ 11,153 | $ (187,544) | $ (176,391) |

Certain previously reported amounts have been reclassified to agree with current presentation.

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## Note 10 Earnings Per Share

The following tables provide a reconciliation of the numerators used in calculating earnings/(loss) per share attributable to common shareholders:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **2014** | 2013 | **2014** | 2013 |
| Income/(loss) from continuing operations | **$ 49,749** | $ (103,149) | **$ 180,159** | $ (13,375) |
| Income/(loss) from discontinued operations, net of tax | | 123 | | 554 |
| **Net income/(loss)** | **49,749** | (103,026) | **180,159** | (12,821) |
| Net income attributable to noncontrolling interest | **2,875** | 2,875 | **8,547** | 8,531 |
| Net income/(loss) attributable to controlling interest | **46,874** | (105,901) | **171,612** | (21,352) |
| Preferred stock dividends | **1,550** | 1,550 | **4,650** | 4,288 |
| **Net income/(loss) available to common shareholders** | **$ 45,324** | $ (107,451) | **$ 166,962** | $ (25,640) |
| Income/(loss) from continuing operations | **$ 49,749** | $ (103,149) | **$ 180,159** | $ (13,375) |
| Net income attributable to noncontrolling interest | **2,875** | 2,875 | **8,547** | 8,531 |
| Preferred stock dividends | **1,550** | 1,550 | **4,650** | 4,288 |
| **Net income/(loss) from continuing operations available to common shareholders** | **$ 45,324** | $ (107,574) | **$ 166,962** | $ (26,194) |

The component of Income/(loss) from continuing operations attributable to FHN as the controlling interest holder was $46.9 million and $(106.0) million during the three months ended September 30, 2014 and 2013, respectively, and $171.6 million and $(21.9) million during the nine months ended September 30, 2014 and 2013, respectively.

The following table provides a reconciliation of weighted average common shares to diluted average common shares:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Shares in thousands)* | **2014** | 2013 | **2014** | 2013 |
| Weighted average common shares outstanding basic | **235,329** | 236,895 | **235,437** | 238,990 |
| Effect of dilutive securities | **1,533** | | **1,732** | |
| Weighted average common shares outstanding diluted | **236,862** | 236,895 | **237,169** | 238,990 |

The following tables provide a reconciliation of earnings/(loss) per common and diluted share:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| **Earnings/(loss) per common share:** | | | | |
| Income/(loss) per share from continuing operations available to common shareholders | **$ 0.19** | $ (0.45) | **$ 0.71** | $ (0.11) |
| **Net income/(loss) per share available to common shareholders** | **$ 0.19** | $ (0.45) | **$ 0.71** | $ (0.11) |
| **Diluted earnings/(loss) per common share:** | | | | |
| Diluted income/(loss) per share from continuing operations available to common shareholders | **$ 0.19** | $ (0.45) | **$ 0.70** | $ (0.11) |
| **Diluted income/(loss) per share available to common shareholders** | **$ 0.19** | $ (0.45) | **$ 0.70** | $ (0.11) |

For the three and nine months ended September 30, 2014, the dilutive effect for all potential common shares was 1.5 million and 1.7 million, respectively. Stock options of 4.3 million and 9.4 million with weighted average exercise prices of $22.74 and $19.55 per share for the three months ended September 30, 2014 and 2013, respectively, were excluded from diluted shares because including such shares would be antidilutive. Stock options of 4.6 million and 9.8 million with weighted average exercise prices of $23.79 and $20.00 per share for the nine months ended September 30, 2014 and 2013, respectively, were also excluded from diluted shares. For the three and nine months ended September 30, 2013, all potential common shares were antidilutive due to the net loss attributable to common shareholders for these periods.

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## Note 11 Contingencies and Other Disclosures

***Contingencies***

General

Contingent liabilities arise in the ordinary course of business. Often they are related to lawsuits, arbitration, mediation, and other forms of litigation. Various litigation matters are threatened or pending against FHN and its subsidiaries. Also, FHN at times receives requests for information, subpoenas, or other inquiries from federal, state, and local regulators, from other government authorities, and from other parties concerning various matters relating to FHN s current or former lines of business. Certain matters of that sort are pending at this time, and FHN is cooperating in those matters. Pending and threatened litigation matters sometimes are resolved in court or before an arbitrator, and sometimes are settled by the parties. Regardless of the manner of resolution, frequently the most significant changes in status of a matter occur over a short time period, often following a lengthy period of little substantive activity. In view of the inherent difficulty of predicting the outcome of these matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories or involve a large number of parties, or where claims or other actions may be possible but have not been brought, FHN cannot reasonably determine what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters may be, or what the eventual loss or impact related to each matter may be. FHN establishes loss contingency liabilities for litigation matters when loss is both probable and reasonably estimable as prescribed by applicable financial accounting guidance. A liability generally is not established when loss for a matter either is not probable or its amount is not reasonably estimable. If loss for a matter is probable and a range of possible loss outcomes is the best estimate available, accounting guidance requires a liability to be established at the low end of the range.

Disclosure in this Note is provided in respect of several types of matters. (a) Disclosure is provided for each matter as to which FHN has determined that material loss is probable, which can include matters for which material loss liability has been established as of period-end and matters for which the amount of loss cannot be estimated.
(b) Disclosure of an aggregate range of reasonably possible loss ( RPL ) associated with contingent liabilities is provided as to matters where there is more than a remote chance of an estimable, material loss outcome for FHN in excess of currently established loss liabilities, whether or not those established loss liabilities are material. Additional disclosure is provided for certain of those matters. (c) Disclosure is provided for several loss contingency litigation matters related to FHN s former mortgage securitizations not falling within loss categories (a) or (b). As a result, disclosure is provided for each pending litigation matter concerning a First Horizon proprietary securitization which FHN is defending.

Based on current knowledge, and after consultation with counsel, management is of the opinion that loss contingencies related to threatened or pending litigation matters should not have a material adverse effect on the consolidated financial condition of FHN, but may be material to FHN s operating results for any particular reporting period depending, in part, on the results from that period.

*Litigation Loss Contingencies*

As used in this Note, material loss contingency matters generally fall into at least one of the following categories: (i) FHN has determined material loss to be probable and has established a material loss liability in accordance with applicable financial accounting guidance, other than matters reported as having been substantially settled or otherwise substantially resolved; (ii) FHN has determined material loss to be probable but is unable to determine an amount or range of material loss liability; or (iii) FHN has determined that material loss is not probable but is reasonably possible, and that the amount or range of that material loss is estimable. As defined in applicable accounting guidance, loss is reasonably possible if there is more than a remote chance of a material loss outcome for FHN. Set forth below are disclosures for certain pending or threatened litigation matters, including all matters mentioned in clauses (i) or (ii) and certain matters mentioned in (iii). In addition, certain other matters are discussed relating to FHN s former mortgage origination and servicing businesses. In all litigation matters discussed, unless settled or otherwise resolved, FHN believes it has meritorious defenses and intends to pursue those defenses vigorously.

FHN reassesses the liability for litigation matters each quarter as the matters progress. At September 30, 2014, the aggregate amount of liabilities established for all material loss contingency matters was $56.3 million. Of the matters discussed under the heading First Horizon Branded Mortgage Securitization Litigation Matters below, only the Charles Schwab suit is among those matters for which a liability has been established. The liabilities discussed in this paragraph are separate from those discussed under the heading Established Repurchase Liability below.

In each material loss contingency matter, except as otherwise noted, there is a more than slight chance that each of the following outcomes will occur: the plaintiff will substantially prevail; the defense will substantially prevail; the plaintiff will prevail in part; or the matter will be settled by the parties. At September 30, 2014, FHN estimates that for all material loss contingency matters, estimable reasonably possible losses in future periods in excess of currently established liabilities could aggregate in a range from zero to approximately $118 million. Of those matters discussed under the heading First Horizon Branded Mortgage Securitization Litigation Matters, only the Charles Schwab and the two FDIC suits are included in that range.

**Note 11 Contingencies and Other Disclosures (Continued)**

*Certain Matters Included in Reasonably Possible Loss Range*

*Debit Transaction Sequencing Litigation Matter.* FTBNA is a defendant in a putative class action lawsuit concerning overdraft fees charged in connection with debit card transactions. A key claim is that the method used to order or sequence the transactions posted each day was improper. The case is styled as *Hawkins v. First Tennessee Bank National Association*, before the Circuit Court for Shelby County, Tennessee, Case No. CT-004085-11. The plaintiff seeks actual damages of at least $5 million, unspecified restitution of fees charged, and unspecified punitive damages, among other things. FHN s estimate of reasonably possible loss for this matter is subject to significant uncertainties regarding: whether a class will be certified and, if so, the definition of the class; claims as to which no dollar amount is specified; the potential remedies that might be available or awarded; the ultimate outcome of potentially dispositive early-stage motions such as motions to dismiss; and the incomplete status of the discovery process.

*RPL-Included First Horizon Branded Mortgage Securitization Litigation Matters.* Several pending litigation matters are discussed under the heading First Horizon Branded Mortgage Securitization Litigation Matters below. For certain of those FHN has been able to estimate reasonably possible loss. Those estimable matters are the Charles Schwab, FDIC (NY), and FDIC (AL) cases. The estimates for those matters are included in the range of reasonably possible loss discussed above. The estimates are subject to significant uncertainties regarding: the dollar amount claimed; the potential remedies that might be available or awarded; the outcome of any settlement discussions; the outcome of potentially significant motions; the availability of significantly dispositive defenses; the identity and value of assets that FHN may be required to repurchase to the extent asset repurchase is sought; the incomplete status of the discovery process; and the lack of precedent claims.

*Certain Matters Not Included in Reasonably Possible Loss Range*

*RPL-Excluded First Horizon Branded Mortgage Securitization Litigation Matters.* Several pending litigation matters are discussed under the heading First Horizon Branded Mortgage Securitization Litigation Matters below. For certain of those FHN has been able to estimate reasonably possible loss as mentioned in the preceding paragraph, and for others FHN has not. Those matters which currently are not estimable are the FHLB of San Francisco, Metropolitan Life, Royal Park, and Integra REC indemnity cases. FHN is unable to estimate a range of reasonably possible loss due to significant uncertainties regarding: claims as to which the claimant specifies no dollar amount; the potential remedies that might be available or awarded; the availability of significantly dispositive defenses such as statutes of limitations or repose; the outcome of potentially dispositive early-stage motions such as motions to dismiss; the identity and value of assets that FHN may be required to repurchase for those claims seeking asset repurchase; the non-started or incomplete status of the discovery process; the lack of a precise statement of damages; and lack of precedent claims.

*Inquiry Regarding FHA-Insured Loans*. Since second quarter 2012 FHN has been cooperating with the U.S. Department of Justice ( DOJ ) and the Office of the Inspector General for the Department of Housing and Urban Development ( HUD ) in a civil investigation regarding compliance with requirements relating to certain residential mortgage loans insured by the Federal Housing Administration ( FHA ). During second quarter 2013 DOJ and HUD provided FHN with preliminary findings of the investigation, which focused on a small sample of loans and remained incomplete. FHN prepared its own analysis of the sample and has provided certain information to DOJ and HUD. Discussions between the parties are continuing as to various matters, including certain factual information. The investigation could lead to a demand or claim under the federal False Claims Act and the federal Financial Institutions

Reform, Recovery, and Enforcement Act of 1989, which allow treble and other special damages substantially in excess of actual losses. Currently FHN is not able to predict the eventual outcome of this matter. In anticipation of future discussions between the parties, this investigation has been added to those matters for which a liability has been established. However, FHN continues to be unable to estimate a range of reasonably possible loss in excess of established liabilities due to significant uncertainties regarding: the potential remedies, including any amount of enhanced damages, that might be available or awarded; the availability of significantly dispositive defenses; FHN s lack of information that would enable FHN to assess performance concerning its FHA-insured originations, nearly all of which FHN does not service; and the limited number of reported precedent claims and resolutions (involving other banking organizations) combined with a lack of underlying data connected with those resolutions.

The investigation has focused on loans originated by FHN on or after January 1, 2006. FHA-insured originations from January 1, 2006 through the August 31, 2008 divestiture of FHN s national mortgage platform totaled 47,817 loans with an aggregate original principal balance of $8.2 billion. The amount of FHA-insured originations each year has declined substantially following the divestiture.

*First Horizon Branded Mortgage Securitization Litigation Matters*

Prior to September 2008 FHN originated and sold home loan products through various channels and conducted its servicing business under the First Horizon Home Loans and First Tennessee Mortgage Servicing brands. Those sales channels included the securitization of loans into pools held by trustees and the sale of the resulting securities, sometimes called certificates, to investors. These activities are discussed in more detail below under the heading Legacy Home Loan Sales and Servicing.

At the time this report is filed, FHN, along with multiple co-defendants, is defending several lawsuits brought by investors which claim that the offering documents under which certificates relating to First Horizon branded securitizations ( FH proprietary securitizations ) were sold to them were materially deficient. The plaintiffs and venues of these suits are: (1) Charles Schwab Corp. in

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**Note 11 Contingencies and Other Disclosures (Continued)**

the Superior Court of San Francisco, California (Case No. 10-501610); (2) Federal Deposit Insurance Corporation ( FDIC ) as receiver for Colonial Bank, in the U.S. District Court for the Middle District of Alabama (Case No. CV-12-791-WKW-WC); and (3) FDIC as a receiver for Colonial Bank, in the U.S. District Court for the Southern District of New York (Case No. 12 Civ. 6166 (LLS)(MHD)). The plaintiffs in the pending suits claim to have purchased certificates in a number of separate FH proprietary securitizations and demand that FHN repurchase their investments, or answer in damages or rescission, among other remedies sought.

In some of the pending suits underwriters are co-defendants and have demanded, under provisions in the applicable underwriting agreements, that FHN indemnify them for their expenses and any losses they may incur. In addition, FHN has received indemnity demands from underwriters in certain other suits as to which investors claim to have purchased senior certificates in FH proprietary securitizations. FHN has not been named a defendant in these suits, which FHN is defending indirectly as indemnitor. The plaintiffs and venues of these other suits are: (4) FHLB of San Francisco, in the Superior Court of San Francisco County, California (Case No. CGC-10-497840); (5) Metropolitan Life Insurance Co., in the Supreme Court of New York County, New York (No. 651360-2012); (6) Royal Park Invs. SA/NV, in the Supreme Court of New York County, New York (No. 652607-2012); and (7) Commonwealth of Virginia *ex rel.* Integra REC LLC, in the Circuit Court for the City of Richmond (No. CL14-399).

Details concerning the original purchase amounts and ending balances of the investments at issue in most of these pending suits, as to which FHN is a named defendant or as to which FHN has an agreement to indemnify an underwriter defendant, are set forth below. Information about the performance of the FH proprietary securitizations related to these suits is available in monthly reports published by the trustee for the securitization trusts. FHN believes that certain plaintiffs did not purchase the entire certificate in the securitizations in which they invested. Reporting by the trustee is at a certificate level and, as a result, ending certificate balances in the following table were adjusted to reflect FHN s estimate of the ending balance of each partial certificate purchased by these plaintiffs. Plaintiffs in the pending lawsuits claim to have purchased a total of $225.7 million of certificates and the purchase prices of the certificates subject to the indemnification requests total $331.4 million. Senior and Junior refer to the ranking of the investments in broad terms; in most cases the securitization provided for sub-classifications within the Senior or Junior groups. Excluded from the information above and the table below is information related to the Integra case. Although FHN is aware that one of its Alt-A securitizations from 2005 is at issue in Integra, FHN does not know which certificate(s), or portion(s) of certificate(s), are involved.

| | Alt-A | | Jumbo | |
|---|---|---|---|---|
| *(Dollars in thousands)* | Senior | Junior | Senior | Junior |
| **Vintage** | | | | |
| Original Purchase Price: | | | | |
| 2005 | $ 200,117 | $ | $ 30,000 | $ |
| 2006 | 77,906 | | | |
| 2007 | 199,012 | | 50,000 | |
| Total | $ 477,035 | $ | $ 80,000 | $ |
| Ending Balance per the September 25, 2014, trust statements: | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2005 | $ | 54,732 | $ | $ | 10,659 | $ |
| 2006 | | 34,164 | | | | |
| 2007 | | 89,610 | | | 15,086 | |
| Total | $ | 178,506 | $ | $ | 25,745 | $ |

If FHN were to repurchase certificates, it would recognize as a loss the difference between the amount paid (adjusted for any related litigation liability previously established) and the fair value of the certificates at that time.

The total ending certificate balance of the investments which are the subject of the current pending lawsuits was $204.3 million as reported on the September 25, 2014, trust statements, with approximately 85 percent of the remaining balances performing. Cumulative losses on the investments which are the subject of the remaining lawsuits, as reported on the trust statements, represent approximately 6 percent of the original principal amount underlying the certificates purchased. Ending certificate balances reflect the remaining principal balance on the certificates, after the monthly principal and interest distributions and after reduction for applicable cumulative and current realized losses. Recognized cumulative losses may not take into account all outstanding principal and interest amounts advanced by the servicer due to nonpayment by the borrowers; reimbursement of those advances to the servicer may increase cumulative losses. Losses often are reported by the trustee based on each certificate within a pool or group, which limits FHN s ability to ascertain losses at the individual investor level.

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**Note 11 Contingencies and Other Disclosures (Continued)**

As discussed below under Legacy Home Loan Sales and Servicing, similar claims may be pursued by other investors, and loan repurchase, make-whole, or indemnity claims may be pursued by securitization trustees or other parties to transactions seeking indemnity. At September 30, 2014, except for the Charles Schwab case, FHN had not recognized a liability for exposure for investment rescission or damages arising from the foregoing or other potential claims by investors that the offering documents under which the loans were securitized were materially deficient, nor for exposure for repurchase of loans arising from potential claims that FHN breached its representations and warranties made in FH proprietary securitizations at closing.

*Legacy Home Loan Sales and Servicing*

*Overview*

Prior to September 2008, as a means to provide liquidity for its legacy mortgage banking business, FHN originated loans through its legacy mortgage business, primarily first lien home loans, with the intention of selling them. Some government-insured and government-guaranteed loans were originated with credit recourse retained by FHN and some other mortgages were originated to be held, but predominantly mortgage loans were intended to be sold without recourse for credit default. Sales typically were effected either as non-recourse whole-loan sales or through non-recourse proprietary securitizations. Conventional conforming single-family residential mortgage loans were sold predominately to two GSEs: the Federal National Mortgage Association ( Fannie Mae, Fannie, or FNMA ), and the Federal Home Loan Mortgage Corporation ( Freddie Mac, Freddie, or FHLMC ). Federally insured or guaranteed whole-loans were pooled, and payments to investors were guaranteed through the Government National Mortgage Association ( Ginnie Mae, Ginnie, or GNMA ). Collectively, Fannie Mae, Freddie Mac, and Ginnie Mae are referred to as the Agencies. Many mortgage loan originations, especially those nonconforming mortgage loans that did not meet criteria for whole-loan sales to the GSEs or insurance through Ginnie Mae, were sold to investors, or certificate-holders, predominantly through First Horizon ( FH ) branded proprietary securitizations but also, to a lesser extent, through whole-loan sales to private non-Agency purchasers. In addition, FHN originated with the intent to sell and sold HELOCs and second lien mortgages through whole-loan sales to private purchasers and, to a lesser extent, through FH proprietary securitizations.

Regarding these past first lien loan sale activities, FHN has exposure to potential loss primarily through two avenues. First, purchasers of these mortgage loans may request that FHN repurchase loans or make the purchaser whole for economic losses incurred if it is determined that FHN violated certain contractual representations and warranties made at the time of these sales. Contractual representations and warranties differ based on deal structure and counterparty. For whole-loan sales, a claimant generally would be the purchaser or its assignee. For securitizations, a repurchase claimant generally would be the trustee. Second, investors in securitizations may attempt to achieve rescission of their investments or damages through litigation by claiming that the applicable offering documents were materially deficient. In addition, augmenting these avenues: the trustee for the securitized loans may seek repurchase of loans under contractual remedies; some of the loans that were sold or securitized were insured and the insurance carrier may seek repurchase or make-whole remedies by claiming that FHN violated certain contractual representations and warranties made in connection with the insurance contract; some of the loans sold to non-Agency whole-loan purchasers were included in securitizations of the purchasers, and the purchasers may seek repurchase or indemnification for losses and expenses caused by such a violation by FHN; and, some loans were originated under government insurance or guarantee programs and the government agency, or a person acting on its behalf, may seek contractual or statutory remedies based on claimed violations of the requirements of the respective program. In some cases FHN retained the servicing of the loans sold or securitized and so retained substantial visibility into the status of the loans; in many cases FHN did not retain servicing and has had very limited or no such direct visibility. Moreover, since 2008 FHN has sold significant amounts of servicing rights in several transactions. Under the most recent servicing sale agreement FHN sold, in late 2013 and early 2014, substantially all its remaining legacy servicing.

For many years ending in 2008, FHN originated and sold mortgage loans to the Agencies without recourse. From 2005 through 2008, $69.5 billion of mortgage loans were sold to the Agencies, including $57.6 billion of loans sold to GSEs and $11.9 billion of loans guaranteed by Ginnie Mae. In addition, for many years ending in 2007, FHN securitized mortgage loans without recourse in FH proprietary transactions. From 2005 through 2007, FHN securitized $26.7 billion of mortgage loans under the FH brand.

On August 31, 2008 FHN sold its national mortgage origination and servicing platforms along with a portion of its servicing assets and obligations. This is sometimes referred to as the 2008 sale, the 2008 divestiture, the platform sale, or other similar terms. FHN contracted to have its remaining servicing obligations sub-serviced. Since the platform sale FHN has sold substantially all remaining servicing assets and obligations, as mentioned above.

*Loans Sold With Full or Limited Recourse*

FHN also sold certain Agency mortgage loans with full recourse under agreements to repurchase the loans upon default. Loans sold with full recourse generally included mortgage loans sold to investors in the secondary market which were uninsurable under government mortgage loan programs due to issues associated with underwriting activities, documentation, or other concerns. For mortgage insured single-family residential loans, in the event of borrower nonperformance, FHN would assume losses to the extent they exceed the value of the collateral and private mortgage insurance ( MI ), the FHA insurance, or the Veteran s Administration ( VA ) guaranty. As mentioned above, in late 2013 and early 2014 FHN sold substantially all remaining servicing. Therefore, FHN no longer has direct visibility into the status of single-family residential loans that were sold on a full or limited recourse basis.

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**Note 11 Contingencies and Other Disclosures (Continued)**

Loans sold with limited recourse include loans sold under government insured or guaranteed mortgage loan programs including the FHA and VA. FHN may absorb losses due to uncollected interest and foreclosure costs but has limited risk of credit losses in the event of foreclosure of the mortgage loan sold. Generally, the amount of recourse liability in the event of foreclosure is determined based upon the respective government program and/or the sale or disposal of the foreclosed property collateralizing the mortgage loan. Another instance of limited recourse is the VA/No bid. In this case, the VA guarantee is limited and FHN may be required to fund any deficiency in excess of the VA guarantee if the loan goes to foreclosure.

FHN also has potential loss exposure from claims that FHN violated FHA or VA requirements related to the origination of the loans and insurance or guarantee claims filed related to the loans. Additional information concerning a pending investigation related to FHA-insured lending is provided in Inquiry Regarding FHA-Insured Loans above.

Unless otherwise noted, the remaining discussion under this section, Legacy Home Loan Sales and Servicing, excludes information concerning full or limited recourse loan sales.

*Agency Whole-Loan Sales*

Each Agency has specific guidelines and criteria for originators and servicers of loans backing their respective securities, and the risk of credit loss with regard to the principal amount of the loans sold was generally transferred to the GSEs upon sale, or resides with the insuring government agency if the loans were guaranteed through Ginnie.

Even though these loans were sold without recourse for credit loss, FHN may be obligated to either repurchase a loan for the unpaid principal balance ( UPB ) or make the purchaser whole for the economic loss incurred if FHN breached representations or warranties made by FHN to the purchaser at the time of the sale. Such representations and warranties typically covered both substantive and process matters, such as the existence and sufficiency of file documentation and the absence of fraud by borrowers or other third parties such as appraisers. Since the mortgage platform sale in 2008 through September 30, 2014, Agencies, primarily the two GSEs, have accounted for the vast majority of repurchase/make-whole claims received.

*GSE Definitive Resolution Agreements*

In the fourth quarter of 2013 FHN entered into a definitive resolution agreement ( DRA ) with Fannie Mae, and in the first quarter of 2014 FHN entered into a DRA with Freddie Mac, in each case resolving certain legacy selling representation and warranty repurchase obligations associated with loans originated from 2000 to 2008 excluding certain loans FHN no longer serviced at the time of the DRA. Under each DRA, FHN remains responsible for repurchase obligations related to certain excluded defects (such as title defects and violations of the GSE s Charter Act) and FHN continues to have obligations related to mortgage insurance rescissions, cancellations, and denials. With respect to loans where there has been a prior bulk sale of servicing, FHN is not responsible for mortgage insurance cancellations and denials to the extent attributable to the acts of the current servicer.

As a result of the DRAs, the repurchase pipeline overall is smaller, and the proportion of GSE-related repurchase requests in the pipeline also is smaller, than in periods pre-dating the DRAs. The repurchase liability FHN has recorded as of September 30, 2014 contemplates, among other things, estimates of FHN s repurchase exposure related to loans excluded from the DRAs and estimates of FHN s repurchase exposure related to certain other whole-loan sales. See Other Whole-Loan Sales and Established Repurchase Liability below for additional information.

*Other Whole-Loan Sales*

Prior to the 2008 divestiture FHN sold first lien mortgage loans without recourse through whole-loan sales to non-Agency purchasers. FHN made contractual representations and warranties to the purchasers generally similar to those made to Agency purchasers. As of September 30, 2014, 38 percent of repurchase/make-whole claims in the pipeline relate to other whole-loan sales. These claims are included in FHN s liability methodology and the assessment of the adequacy of the repurchase and foreclosure liability.

Many of these loans were included by the purchasers in their own securitizations, not using the First Horizon brand. FHN s contractual representations and warranties to these loan purchasers generally included repurchase and indemnity covenants for losses and expenses applicable to the securitization caused by FHN s breach. Currently the following categories of actions are pending which involve FHN and non-Agency whole-loan sales: (i) FHN has received indemnification requests from purchasers of loans or their assignees in cases where FHN is not a defendant; (ii) FHN has received subpoenas seeking loan reviews in cases where FHN is not a defendant; (iii) FHN has received repurchase or make-whole demands from purchasers or their assignees; and (iv) FHN is a defendant in certain legal actions involving FHN-originated loans. In some cases the loans to be reviewed, or which otherwise are at issue, have not been identified specifically. Assignees can include securitizers or securitization trustees, among others. A loan is included in the repurchase pipeline only when an identifiable demand for repurchase has been made outside of active litigation.

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**Note 11 Contingencies and Other Disclosures (Continued)**

*First Horizon Branded Proprietary Mortgage Securitizations*

From 2005 through 2007 FHN originated and sold certain non-agency, nonconforming mortgage loans, consisting of Jumbo and Alternative-A ( Alt A ) first lien mortgage loans, to private investors through 80 proprietary securitization trusts under the FH brand. Securitized loans generally were sold indirectly to investors as interests, commonly known as certificates, in the trusts. The certificates were sold to a variety of investors, including GSEs in some cases, through securities offerings under a prospectus or other offering documents. In most cases, the certificates were tiered into different risk classes, with junior classes exposed to trust losses first and senior classes exposed after junior classes were exhausted. Through third quarter 2013, FHN continued to service substantially all of the remaining loans sold through FH proprietary securitizations. In third quarter FHN contracted to sell substantially all such servicing rights and obligations, with transfers occurring largely in fourth quarter 2013 and first quarter 2014. As of September 30, 2014, the aggregate remaining UPB in active FH proprietary securitizations from 2005 through 2007 was $6.4 billion consisting of $4.4 billion Alt-A mortgage loans and $2.0 billion Jumbo mortgage loans.

Representations and warranties were made to the securitization trustee, as the nominal purchaser of the loans, for the benefit of investors. As such, FHN has exposure to the trustee for repurchase of loans arising from claims that FHN breached its representations and warranties made at closing. As of September 30, 2014, the repurchase request pipeline contained no repurchase requests related to FH proprietary first lien securitizations based on breaches of representations and warranties to the trustee.

Unlike loans sold to GSEs, contractual representations and warranties for FH proprietary first lien securitizations do not include specific representations regarding the absence of other-party fraud or negligence in the underwriting or origination of the mortgage loans. Securitization documents typically provide the investors with a right to request that the trustee investigate and initiate repurchase of a mortgage loan if FHN breached certain representations and warranties made at the time the securitization closed and such breach materially and adversely affects the interests of the investors in such mortgage loan. The securitization documents do not require the trustee to make an investigation into the facts or matters stated in any investor request or notice unless requested in writing to do so by the holders of certificates evidencing not less than 25 percent of the voting rights allocated to each class of certificates. The certificate holders also may be required to indemnify the trustee for its costs related to investigations made in connection with repurchase actions.

GSEs and certain other quasi-governmental entities were among the purchasers of certificates in FH proprietary securitizations. As such, they are entitled to the benefits of the same representations and warranties as other investors. However, under federal law some entities of that sort are permitted to undertake, independently of other investors, reviews of FHN s mortgage loan origination and servicing files. Such reviews are commenced using a subpoena process. If, because of such reviews, an entity determines there has been a breach of a representation or warranty that has had a material and adverse effect on the interests of the investors in any mortgage loan, the entity may attempt to persuade or compel enforcement of a repurchase obligation against FHN by the securitization trustee. As discussed in more detail below in Other Government Entity Loan Reviews, FHN has received several such subpoenas.

In addition, the FH proprietary securitization trustee generally may initiate a loan review, without prior official action by investors, for the purpose of determining compliance with applicable representations and warranties with respect to any or all of the active FH proprietary securitizations. If non-compliance is discovered, the trustee may seek repurchase or other relief. At September 30, 2014, FHN s trustee had made no claims against FHN and no litigation by the trustee was pending against FHN. Accordingly, FHN is not able to estimate any liability for this risk. FHN similarly is not able to estimate a range of reasonably possible losses associated with this risk, and no such amounts are included in the aggregate range discussed above. Those inabilities are due to significant uncertainties regarding: the absence of claims made; the nature and outcome of any claims process or related settlement discussions if pursued; the outcome of litigation if litigation is pursued; the identity and value of assets that FHN may be required to repurchase to the extent asset repurchase is sought; and the lack of precedent claims.

Also unlike loans sold to the GSEs, interests in securitized loans were sold as securities under prospectuses or other offering documents subject to the disclosure requirements of applicable federal and state securities laws. As an alternative to pursuing a claim for breach of representations and warranties through the trustee as mentioned above, an investor could pursue (and in certain cases mentioned below, have pursued or are pursuing) a claim alleging that the prospectus or other disclosure documents were deficient by containing materially false or misleading information or by omitting material information. A claim for such disclosure deficiencies typically could be brought under applicable federal or state securities statutes. Statutory remedies typically include rescission of the investment or monetary damages measured in relation to the original investment made. Any such statutory claim would be subject to applicable limitation periods and other statutory defenses. If a plaintiff properly made and proved its allegations, the plaintiff might attempt to claim that damages could include loss of market value on the investment even if there were little or no credit loss in the underlying loans. Claims based on alleged disclosure deficiencies also could be brought as traditional fraud or negligence claims with a wider scope of damages possible. Each investor could bring such a claim individually, without acting through the trustee to pursue a claim for breach of representations and warranties, and investors could attempt joint claims or attempt to pursue claims on a class-

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**Note 11 Contingencies and Other Disclosures (Continued)**

action basis. Claims of this sort have been resolved in a litigation context, unlike FHN s GSE repurchase experience, and several claims still are pending. FHN s analysis of loss content and establishment of appropriate liabilities in these cases follow principles and practices associated with litigation matters, including an analysis of available procedural and substantive defenses in each particular case, a determination of whether material loss is probable, and (if so) an estimation of the amount of ultimate loss, if any can be estimated. Alternatively, under applicable financial accounting guidance, a liability may be established or increased in the course of negotiations for settlement of a matter, whether or not a settlement results.

*Monoline Insurance*

Monoline insurance was a form of credit enhancement provided to a securitization by an insurer not affiliated with FHN. Subject to the terms and conditions of the policy, the insurer guaranteed payments of accrued interest and principal due to the investors. None of the FH proprietary first lien securitizations involved the use of monoline insurance for the benefit of all classes of security holders. In certain limited situations, insurance was provided for a specific senior retail class of holders within an individual securitization. The only insured certificate more recent than 2004 is from 2005 and covered $25.0 million of original certificate balance. The trustee statement dated September 25, 2014, reported to FHN that the remaining outstanding certificate balance for that class was $23.2 million.

FHN understands that some monoline insurers have commenced lawsuits against others in the industry seeking to rescind policies of this sort due to alleged misrepresentations as to the quality of the loan portfolio insured. FHN has not received notice of a monoline lawsuit against FHN involving the certificates mentioned above or the HELOC securitizations mentioned in the next section.

*Other First Horizon Branded Proprietary Securitizations*

FHN originated and sold home equity lines and second lien loans through certain FH proprietary securitization trusts, most of which related to home equity line of credit ( HELOC ) loans. As of September 30, 2014, only one of those securitizations remains active; the rest have been resolved through clean-up calls or other means. The remaining trust issued notes backed by HELOC loans and publicly offered the asset-backed notes to investors pursuant to a prospectus. The Trustee statement dated September 25, 2014, reported that the original and current outstanding certificate balance of the remaining FH proprietary HELOC securitization is $299.8 million and $68.8 million, respectively.

The loans in the remaining FH HELOC securitization trust are included on FHN s balance sheet in accordance with GAAP as a consolidated variable interest entity ( VIE ). These loans and the associated credit risk are reflected in FHN s consolidated condensed financial statements.

The asset-backed notes issued in the FH proprietary HELOC securitizations were wrapped by monoline insurers. The monoline insurers also have certain contractual rights to pursue repurchase and indemnification. Because the underlying loans and their associated loss content are recorded on FHN s balance sheet, FHN reviews the portfolio each quarter for inherent loss and has established reserves for loss content. For that reason, FHN does not include these requests in the repurchase pipeline reported for first lien mortgages, and FHN believes that any ultimate cash payouts related to these loans are unlikely to have any material impact upon FHN s financial results as such payouts would be reflected as reductions to the existing balance of restricted or secured term borrowings.

*Other Government Entity Loan Reviews*

Certain government entities acting on behalf of several purchasers of FH proprietary and other securitizations have subpoenaed information from FHN and others. In 2009 FHN was subpoenaed by the federal regulator of credit unions, the National Credit Union Administration ( NCUA ), related to FH proprietary securitization investments by certain federal credit unions. There has been little communication with FHN associated with this matter since 2010. FHN has been subpoenaed by the Federal Housing Finance Agency ( FHFA ) acting as conservator for Fannie Mae and Freddie Mac related to securitization investments by those institutions. In addition, the FHLB of San Francisco and FHLB of Atlanta have subpoenaed FHN for purposes of a loan origination review related to certain of their securitization investments. Collectively, the NCUA, FHFA, and FHLB subpoenas seek information concerning a number of FH proprietary first lien securitizations and a FH proprietary HELOC securitization during 2005 and 2006. In addition, the FDIC, acting on behalf of certain failed banks, has also subpoenaed FHN related to FH proprietary securitization investments by those institutions.

The FDIC, FHFA and FHLB of San Francisco subpoenas also concern loans sold by FHN to non-Agency purchasers on a whole-loan basis which were included by those purchasers in non-FH securitizations. See Other Whole-Loan Sales above for additional information concerning loans originated and sold by FHN that were included in the purchasers own securitizations. In addition, the FHLB of Seattle has subpoenaed FHN in connection with FHN-originated loans that were included in non-FH securitizations. The FDIC subpoena fails to identify the specific investments made by the failed banks. Other than the dollar amounts of those investments which are the subject of the FDIC s active litigation as receiver for Colonial Bank, FHN has limited information regarding at least some of the loans under review or the dollar amounts invested in relation to the FDIC, FHFA, and FHLB subpoenas. The FDIC subpoenas partially overlap with the ongoing litigation matters mentioned above under Litigation Loss Contingencies, and with the now-settled litigation matter with the FHFA.

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**Note 11 Contingencies and Other Disclosures (Continued)**

The subpoenas discussed above relate to ongoing reviews which ultimately could result in claims against FHN. The original and current (as of September 25, 2014 trust statements) combined first lien certificate balances of the related FH proprietary securitizations in which the credit unions invested were $321.6 million and $99.7 million, respectively. The original and current (as of September 25, 2014 trust statements) HELOC certificate balances of the related FH proprietary HELOC securitization in which the credit unions invested was $299.8 million and $68.8 million. The original and current certificate balances of the FH proprietary securitizations in which the FHLB of San Francisco invested are $501.1 million and $144.3 million, respectively. The original and current certificate balances of the FH proprietary securitizations in which the FHLB of Atlanta invested are $56.1 million and $7.0 million, respectively. There are limitations as to FHN s knowledge of the amount of FH proprietary securitizations investments that are subject to the FDIC, FHFA and FHLB of San Francisco subpoenas. Since the reviews at this time are not repurchase claims, the associated loans are not considered part of the repurchase pipeline.

*Private Mortgage Insurance*

MI was required by GSE rules for certain of the loans sold to GSEs and was also provided for certain of the loans that were securitized. MI generally was provided for the first lien loans sold or securitized having a loan-to-value ratio at origination of greater than 80 percent. Although unresolved MI cancellation notices related to GSE-owned loans are not formal repurchase requests, FHN includes these in the active repurchase request pipeline. FHN tracks and monitors MI cancellation notices received and considers the amount of loans sold to GSEs where MI coverage has ultimately been lost when assessing the overall adequacy of FHN s repurchase liability. As of September 30, 2014 and 2013, $516.0 million and $481.7 million, respectively, of loans sold or securitized have lost MI coverage.

*Established Repurchase Liability*

In fourth quarter 2013, FHN entered into a DRA, discussed above in GSE Definitive Resolution Agreements, to resolve certain selling representation and warranty repurchase obligations with Fannie Mae. In connection with the DRA, FHN received additional information which has been used to estimate repurchase liability levels at September 30, 2013 and later periods. Compared with earlier periods, that information encompassed a broader population of loans including older vintages and expanded selection criteria from the remaining loan populations. The new information added the origination vintages of 2000 through 2004, expanded the scope of selections, and included estimates for losses from loans in early stage delinquency, modifications, and loans determined to have a higher probability of default. In first quarter 2014, FHN entered into a DRA, also discussed above, with Freddie Mac. In connection with that DRA FHN also received certain additional information which FHN used to estimate repurchase liability levels at year-end 2013 and afterward. FHN used all available information to estimate losses related to potential repurchase obligations not included in the DRAs including future MI rescissions, prior bulk servicing sales where FHN is no longer the directly responsible party but still has repurchase obligations, and obligations related to certain other loan sales, including repurchase obligations related to non-GSE loan sales. Additionally, FHN continues to monitor claims included in the active pipeline, historical repurchase rates, and loss severities.

Based on currently available information and experience to date, FHN has evaluated its exposure under these obligations and accordingly has accrued for losses of $126.2 million and $295.2 million as of September 30, 2014 and 2013, respectively, including a smaller amount related to equity-lending junior lien loan sales. Accrued liabilities for FHN s estimate of these obligations are reflected in Other liabilities on the Consolidated Condensed Statements of Condition. Charges to increase the liability are included within Repurchase and foreclosure provision on the

Consolidated Condensed Statements of Income. The estimates are based upon currently available information and fact patterns that exist as of the balance sheet dates and could be subject to future changes. Changes to any one of these factors could significantly impact the estimate of FHN s liability.

*Servicing and Foreclosure Practices*

Through third quarter 2013, FHN serviced a predominately first lien mortgage loan portfolio with an unpaid principal balance of approximately $15 billion as of September 30, 2013. In fourth quarter 2013 and first quarter 2014, sales of substantially all remaining servicing were consummated under a contract discussed below. As a result, the loan portfolio serviced by FHN at September 30, 2014 had an unpaid principal balance of $265.5 million.

Prior to those recent sales, a substantial portion of FHN s first lien portfolio was serviced through subservicing arrangements. FHN s national mortgage and servicing platforms were sold in August 2008 and the related servicing activities, including foreclosure and loss mitigation practices, of the then-remaining portion of FHN s mortgage servicing portfolio were outsourced through a three year subservicing arrangement (the 2008 subservicing agreement ) with the platform buyer (the 2008 subservicer ). FHN entered into a replacement agreement in 2011 with a new subservicer (the 2011 subservicer ). In third quarter 2013 FHN contracted to sell substantially all of its remaining servicing obligations and servicing assets (including advances) to the 2011 subservicer. The servicing was transferred to the buyer in stages, with substantial completion occurring during first quarter 2014. Servicing still retained by FHN continues to be subserviced by the 2011 subservicer.

**Note 11 Contingencies and Other Disclosures (Continued)**

The first lien loan portfolio is held primarily by private security holders and GSEs, with less significant portions held by other private investors. In connection with its servicing activities, FHN collected and remitted the principal and interest payments on the underlying loans for the account of the appropriate investor. In the event of delinquency or non-payment on a loan in a private or agency securitization: (1) the terms of the private securities agreements generally require the servicer to continue to make monthly advances of principal and interest ( P&I ) to the trustee for the benefit of the investors; (2) the terms of the majority of the agency agreements may require the servicer to make advances of P&I, or in certain circumstances to repurchase the loan out of the trust pool; and (3) the servicer may be required to advance escrow and other payments. In the event advances are ultimately made by the servicer to satisfy these servicing obligations, these servicing advances are recoverable from: (a) the liquidation proceeds of the property securing the loan, in the case of private securitizations; (b) the proceeds of the foreclosure sale by the government agency, in the case of government agency-owned loans; and (c) in certain circumstances, mortgage payment pool funds. As of September 30, 2014 and 2013, FHN has recognized servicing advances of $19.9 million and $289.1 million, respectively. Servicing advances are included in Other assets on the Consolidated Condensed Statements of Condition. Those advances are part of the assets sold under the servicing sale agreement FHN entered into late in 2013; substantially all transfers under that agreement occurred in fourth quarter 2013 and first quarter 2014.

FHN is subject to losses in its current and former loan servicing portfolio due to loan foreclosures. Foreclosure exposure arises from certain government agency agreements, as well as agreements with MI insurers, which limit the agency s repayment guarantees on foreclosed loans and allow compensatory fees and penalties and curtailments of claims for violations of agreements or insurance policies, resulting in losses to the servicer. Foreclosure exposure also includes real estate costs, marketing costs, and costs to maintain properties, especially during protracted resale periods in geographic areas of the country negatively impacted by declining home values.

In 2011 regulators entered into consent decrees with several institutions, including the 2008 subservicer, requiring comprehensive revision of loan modification and foreclosure processes, including the remediation of borrowers that have experienced financial harm. In 2012 the 2008 subservicer, along with certain others, entered into a settlement agreement with the OCC which replaced the consent decree.

Under FHN s 2008 subservicing agreement, the 2008 subservicer had the contractual right to follow FHN s prior servicing practices as they existed 180 days prior to August 2008 until the 2008 subservicer became aware that such practices did not comply with applicable servicing requirements, subject to the subservicer s obligation to follow accepted servicing practices, applicable law, and new requirements, including evolving interpretations of such practices, law and requirements. In the event of a dispute such as that described below between FHN and the 2008 subservicer over any liabilities for the subservicer s servicing and management of foreclosure or loss mitigation processes, FHN cannot predict the costs that may be incurred.

FHN s 2008 subservicer has presented invoices and made demands under the 2008 subservicing agreement that FHN pay certain costs related to tax service contracts, miscellaneous transfer costs, servicing timeline penalties, compensatory damages, and curtailments charged by GSEs and a government agency prior to FHN s transfer of subservicing to its 2011 subservicer in the amount of $8.6 million. The 2008 subservicer also is seeking reimbursement from FHN for expenditures the 2008 subservicer has incurred or anticipates it will incur under the consent decree and supervisory guidance relating to foreclosure review (collectively, foreclosure review expenditures ). The foreclosure review expenditures for which the 2008 subservicer has sought reimbursement total $34.9 million. Although the most recent request was made in 2012, additional reimbursement requests may be made.

FHN disagrees with the 2008 subservicer s position and has made no reimbursements. In the event that the 2008 subservicer pursues its position through litigation, FHN believes it has meritorious defenses and intends to defend itself vigorously. FHN also believes that certain amounts billed to FHN by agencies for penalties and curtailments on claims by MI insurers for actions by the 2008 subservicer prior to the 2011 subservicing transfer but billed after that date are owed by the 2008 subservicer. This disagreement has the potential to result in litigation and, in any such future litigation, the claim against FHN may be substantial.

***Other Disclosures Visa Matters***

FHN is a member of the Visa USA network. In October 2007, the Visa organization of affiliated entities completed a series of global restructuring transactions to combine its affiliated operating companies, including Visa USA, under a single holding company, Visa Inc. ( Visa ). Upon completion of the reorganization, the members of the Visa USA network remained contingently liable for certain Visa litigation matters (the Covered Litigation ). Based on its proportionate membership share of Visa USA, FHN recognized a contingent liability in fourth quarter 2007 related to this contingent obligation. In March 2008, Visa completed its initial public offering ( IPO ) and funded an escrow account from its IPO proceeds to be used to make payments related to the Visa litigation matters. FHN received approximately 2.4 million Class B shares in conjunction with Visa s IPO.

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**Note 11 Contingencies and Other Disclosures (Continued)**

Conversion of these shares into Class A shares of Visa and, with limited exceptions, transfer of these shares is restricted until the final resolution of the covered litigation. In conjunction with the prior sales of Visa Class B shares in December 2010 and September 2011, FHN and the purchasers entered into derivative transactions whereby FHN will make, or receive, cash payments whenever the conversion ratio of the Visa Class B shares into Visa Class A shares is adjusted. The conversion ratio is adjusted when Visa deposits funds into the escrow account to cover certain litigation.

In July 2012, Visa and MasterCard announced a joint settlement (the Settlement ) related to the Payment Card Interchange matter, one of the Covered Litigation matters. Based on the amount of the Settlement attributable to Visa and an assessment of FHN s contingent liability accrued for Visa litigation matters, the Settlement did not have a material impact on FHN. In September 2014, Visa funded $450 million into the escrow account, and as a result FHN made a payment to the derivative counterparty of $2.4 million in October 2014. As of September 30, 2014, the conversion ratio is 41 percent, and the contingent liability is $.8 million. Future funding of the escrow would dilute this exchange rate by an amount that is not determinable at present.

As of September 30, 2014 and 2013, the derivative liabilities were $7.6 million and $2.7 million, respectively.

FHN now holds approximately 1.1 million Visa Class B shares. FHN s Visa shares are not considered to be marketable and therefore are included in the Consolidated Condensed Statements of Condition at their historical cost of $0. The Settlement has been approved by the court but that approval has been appealed by certain of the plaintiffs. Accordingly, the outcome of this matter remains uncertain. Additionally, other Covered Litigation matters are also pending judicial resolution, including new matters filed by class members who opted-out of the Settlement. So long as any Covered Litigation matter remains pending, FHN s ability to transfer its Visa holdings continues to be restricted.

***Other Disclosures Indemnification Agreements and Guarantees***

In the ordinary course of business, FHN enters into indemnification agreements for legal proceedings against its directors and officers and standard representations and warranties for underwriting agreements, merger and acquisition agreements, loan sales, contractual commitments, and various other business transactions or arrangements. The extent of FHN s obligations under these agreements depends upon the occurrence of future events; therefore, it is not possible to estimate a maximum potential amount of payouts that could be required with such agreements.

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## Note 12 Pension, Savings, and Other Employee Benefits

***Pension plan.*** FHN sponsors a noncontributory, qualified defined benefit pension plan to employees hired or re-hired on or before September 1, 2007. Pension benefits are based on years of service, average compensation near retirement or other termination, and estimated social security benefits at age 65. Benefits under the plan are frozen so that years of service and compensation changes after 2012 do not affect the benefit owed. The contributions are based upon actuarially determined amounts necessary to fund the total benefit obligation. FHN did not make any contributions to the qualified pension plan in 2013. Future decisions to contribute to the plan will be based upon pension funding requirements under the Pension Protection Act, the maximum deductible under the Internal Revenue Code, and the actual performance of plan assets. Management has assessed the need for future contributions, and does not currently anticipate that FHN will make a contribution to the qualified pension plan in 2014.

FHN also maintains non-qualified plans including a supplemental retirement plan that covers certain employees whose benefits under the qualified pension plan have been limited by tax rules. These other non-qualified plans are unfunded, and contributions to these plans cover all benefits paid under the non-qualified plans. Payments made under the non-qualified plans were $5.4 million for 2013. FHN anticipates making benefit payments under the non-qualified plans of $5.1 million in 2014.

***Savings plan.*** FHN provides all qualifying full-time employees with the opportunity to participate in the FHN tax qualified 401(k) savings plan. The qualified plan allows employees to defer receipt of earned salary, up to tax law limits, on a tax-advantaged basis. Accounts, which are held in trust, may be invested in a wide range of mutual funds and in FHN common stock. Up to tax law limits, FHN provides a 100 percent match for the first 6 percent of salary deferred. Through a non-qualified savings restoration plan, FHN provides a restorative benefit to certain highly-compensated employees who participate in the savings plan and whose contribution elections are capped by tax limitations.

***Other employee benefits.*** FHN provides postretirement life insurance benefits to certain employees and also provides postretirement medical insurance benefits to retirement-eligible employees. The postretirement medical plan is contributory. For the 2013 plan year, certain retiree contributions were adjusted based on criteria that were a combination of the employee s age and/or years of service. For the 2014 plan year FHN contributes a fixed amount for each participant. FHN s postretirement benefits include prescription drug benefits. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ( the Act ) introduced a prescription drug benefit under Medicare Part D as well as a federal subsidy to sponsors of retiree health care that provide a benefit that is actuarially equivalent to Medicare Part D. Beginning in 2014, FHN does not currently anticipate receiving a prescription drug subsidy under the Act.

The components of net periodic benefit cost for the three months ended September 30 are as follows:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **2014** | 2013 | **2014** | 2013 |
| **Components of net periodic benefit cost** | | | | |
| Service cost | **$ 8** | $ (77) | **$ 45** | $ 114 |
| Interest cost | **8,866** | 8,097 | **400** | 505 |
| Expected return on plan assets | **(10,034)** | (8,756) | **(259)** | (199) |
| Amortization of unrecognized: | | | | |
| Prior service cost/(credit) | **86** | 89 | **(290)** | (25) |

| | | | | |
|---|---|---|---|---|
| Actuarial (gain)/loss | **1,904** | 2,585 | **(377)** | (106) |
| **Net periodic benefit cost** | **$ 830** | $ 1,938 | **$ (481)** | $ 289 |
| **ASC 715 settlement expense** | | | | |
| **ASC 715 special termination benefits (a)** | **1,009** | | | |
| **Total periodic benefit costs** | **$ 1,839** | $ 1,938 | **$ (481)** | $ 289 |

(a) In third quarter 2014, a one-time special termination benefits charge was recongnized related to recalculation of a participant s benefit under a non-qualifed plan upon retirement.

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**Note 12 Pension, Savings, and Other Employee Benefits (Continued)**

The components of net periodic benefit cost for the nine months ended September 30 are as follows:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **2014** | 2013 | **2014** | 2013 |
| **Components of net periodic benefit cost** | | | | |
| Service cost | **$ 42** | $ 47 | **$ 155** | $ 382 |
| Interest cost | **26,186** | 24,271 | **1,316** | 1,601 |
| Expected return on plan assets | **(30,070)** | (26,210) | **(769)** | (593) |
| Amortization of unrecognized: | | | | |
| Prior service cost/(credit) | **260** | 265 | **(872)** | (9) |
| Actuarial (gain)/loss | **5,174** | 7,374 | **(755)** | (72) |
| **Net periodic benefit cost** | **1,592** | 5,747 | **(925)** | 1,309 |
| **ASC 715 settlement expense** | | 370 | | |
| **ASC 715 special termination benefits (a)** | **1,009** | | | |
| **Total periodic benefit costs** | **$ 2,601** | $ 6,117 | **$ (925)** | $ 1,309 |

(a) In third quarter 2014, a one-time special termination benefits charge was recongnized related to recalculation of a participant s benefit under a non-qualifed plan upon retirement.

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## Note 13 Business Segment Information

FHN has four business segments: regional banking, capital markets, corporate, and non-strategic. The regional banking segment offers financial products and services, including traditional lending and deposit taking, to retail and commercial customers largely in Tennessee and other selected markets. Regional banking provides investments, financial planning, trust services and asset management, credit card, and cash management. Additionally, the regional banking segment includes correspondent banking which provides credit, depository, and other banking related services to other financial institutions nationally. The capital markets segment consists of fixed income sales, trading, and strategies for institutional clients in the U.S. and abroad, as well as loan sales, portfolio advisory, and derivative sales. The corporate segment consists of unallocated corporate expenses, expense on subordinated debt issuances, bank-owned life insurance, unallocated interest income associated with excess equity, net impact of raising incremental capital, revenue and expense associated with deferred compensation plans, funds management, tax credit investment activities, acquisition-related costs, and various charges related to restructuring, repositioning, and efficiency initiatives. The non-strategic segment consists of the wind-down national consumer lending activities, legacy mortgage banking elements including servicing fees (in periods subsequent to first quarter 2014 these amounts are significantly lower), and the associated ancillary revenues and expenses related to these businesses. Non-strategic also includes the wind-down trust preferred loan portfolio and exited businesses along with the associated restructuring, repositioning, and efficiency charges.

Periodically, FHN adapts its segments to reflect managerial or strategic changes. FHN may also modify its methodology of allocating expenses and equity among segments which could change historical segment results. Total revenue, expense, and asset levels reflect those which are specifically identifiable or which are allocated based on an internal allocation method. Because the allocations are based on internally developed assignments and allocations, they are to an extent subjective. Generally, all assignments and allocations have been consistently applied for all periods presented. The following table reflects the amounts of consolidated revenue, expense, tax, and assets for each segment for the three and nine months ended September 30:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **2014** | 2013 | **2014** | 2013 |
| **Consolidated** | | | | |
| Net interest income | **$ 159,541** | $ 158,838 | **$ 468,668** | $ 480,239 |
| Provision for loan losses | **6,000** | 10,000 | **21,000** | 40,000 |
| Noninterest income | **157,815** | 150,475 | **430,446** | 449,534 |
| Noninterest expense | **246,186** | 433,556 | **631,732** | 901,504 |
| Income/(loss) before income taxes | **65,170** | (134,243) | **246,382** | (11,731) |
| Provision/(benefit) for income taxes | **15,421** | (31,094) | **66,223** | 1,644 |
| Income/(loss) from continuing operations | **49,749** | (103,149) | **180,159** | (13,375) |
| Income/(loss) from discontinued operations, net of tax | | 123 | | 554 |
| Net income/(loss) | **$ 49,749** | $ (103,026) | **$ 180,159** | $ (12,821) |
| Average assets | **$ 23,804,957** | $ 24,181,633 | **$ 23,790,586** | $ 24,599,839 |

Certain previously reported amounts have been reclassified to agree with current presentation.

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**Note 13 Business Segment Information (Continued)**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **2014** | 2013 | **2014** | 2013 |
| **Regional Banking** | | | | |
| Net interest income | **$ 153,855** | $ 149,541 | **$ 444,519** | $ 444,881 |
| Provision/(provision credit) for loan losses | **2,204** | 5,159 | **23,619** | 15,875 |
| Noninterest income | **64,159** | 63,883 | **190,377** | 184,912 |
| Noninterest expense | **136,253** | 131,961 | **402,867** | 392,622 |
| Income/(loss) before income taxes | **79,557** | 76,304 | **208,410** | 221,296 |
| Provision/(benefit) for income taxes | **28,422** | 27,554 | **74,145** | 79,921 |
| Net income/(loss) | **$ 51,135** | $ 48,750 | **$ 134,265** | $ 141,375 |
| Average assets | **$ 13,577,560** | $ 12,923,245 | **$ 13,086,901** | $ 12,940,127 |
| **Capital Markets** | | | | |
| Net interest income | **$ 2,952** | $ 3,811 | **$ 9,020** | $ 11,876 |
| Noninterest income | **49,895** | 64,115 | **154,217** | 208,926 |
| Noninterest expense | **47,910** | 57,930 | **100,615** | 179,285 |
| Income/(loss) before income taxes | **4,937** | 9,996 | **62,622** | 41,517 |
| Provision/(benefit) for income taxes | **1,697** | 3,765 | **23,688** | 15,638 |
| Net income/(loss) | **$ 3,240** | $ 6,231 | **$ 38,934** | $ 25,879 |
| Average assets | **$ 2,002,913** | $ 2,104,991 | **$ 2,038,136** | $ 2,322,060 |
| **Corporate** | | | | |
| Net interest income/(expense) | **$ (12,523)** | $ (11,654) | **$ (32,158)** | $ (32,895) |
| Noninterest income | **4,139** | 6,558 | **22,568** | 18,224 |
| Noninterest expense | **18,783** | 21,739 | **54,159** | 56,493 |
| Income/(loss) before income taxes | **(27,167)** | (26,835) | **(63,749)** | (71,164) |
| Provision/(benefit) for income taxes | **(17,723)** | (16,593) | **(46,759)** | (44,374) |
| Net income/(loss) | **$ (9,444)** | $ (10,242) | **$ (16,990)** | $ (26,790) |
| Average assets | **$ 5,229,804** | $ 5,166,494 | **$ 5,474,810** | $ 5,162,989 |
| **Non-Strategic** | | | | |
| Net interest income | **$ 15,257** | $ 17,140 | **$ 47,287** | $ 56,377 |
| | **3,796** | 4,841 | **(2,619)** | 24,125 |

| | | | | |
|---|---|---|---|---|
| Provision/(provision credit) for loan losses | | | | |
| Noninterest income | **39,622** | 15,919 | **63,284** | 37,472 |
| Noninterest expense | **43,240** | 221,926 | **74,091** | 273,104 |
| Income/(loss) before income taxes | **7,843** | (193,708) | **39,099** | (203,380) |
| Provision/(benefit) for income taxes | **3,025** | (45,820) | **15,149** | (49,541) |
| Income/(loss) from continuing operations | **4,818** | (147,888) | **23,950** | (153,839) |
| Income/(loss) from discontinued operations, net of tax | | 123 | | 554 |
| Net income/(loss) | **$ 4,818** | $ (147,765) | **$ 23,950** | $ (153,285) |
| Average assets | **$ 2,994,680** | $ 3,986,903 | **$ 3,190,739** | $ 4,174,663 |

Certain previously reported amounts have been reclassified to agree with current presentation.

## Note 14 Variable Interest Entities

ASC 810 defines a VIE as an entity where the equity investors, as a group, lack either (1) the power through voting rights, or similar rights, to direct the activities of an entity that most significantly impact the entity s economic performance, (2) the obligation to absorb the expected losses of the entity, (3) the right to receive the expected residual returns of the entity, or (4) when the equity investors, as a group, do not have sufficient equity at risk for the entity to finance its activities by itself. A variable interest is a contractual ownership, or other interest, that fluctuates with changes in the fair value of the VIE s net assets exclusive of variable interests. Under ASC 810, as amended, a primary beneficiary is required to consolidate a VIE when it has a variable interest in a VIE that provides it with a controlling financial interest. For such purposes, the determination of whether a controlling financial interest exists is based on whether a single party has both the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant.

### Consolidated Variable Interest Entities

FHN holds variable interests in proprietary residential mortgage securitization trusts it established prior to 2008 as a source of liquidity for its mortgage banking and consumer lending operations. Based on their restrictive nature, the trusts are considered VIEs as the holders of equity at risk do not have the power through voting rights or similar rights to direct the activities that most significantly impact the trusts economic performance. In situations where the retention of MSR and other retained interests, including residual interests and subordinated bonds, results in FHN potentially absorbing losses or receiving benefits that are significant to the trusts, FHN is considered the primary beneficiary, as it is also assumed to have the power as servicer to most significantly impact the activities of such VIEs. Consolidation of the trusts results in the recognition of the trusts proceeds as restricted borrowings since the cash flows on the securitized loans can only be used to settle the obligations due to the holders of the trusts securities. In third quarter 2013, FHN agreed to sell the servicing related to one of these securitization trusts that was previously consolidated. Upon closing of this sale in January 2014, the securitization trust was de-consolidated and prospectively considered a non-consolidated VIE. Except for recourse due to breaches of representations and warranties made by FHN in connection with the sale of the loans to the trusts, the creditors of the trusts hold no recourse to the assets of FHN.

The only trust included in the September 30, 2014 balance of consolidated proprietary residential mortgage securitizations is a HELOC securitization trust that has entered a rapid amortization period and for which FHN is obligated to provide subordinated funding. During this period, cash payments from borrowers are accumulated to repay outstanding debt securities while FHN continues to make advances to borrowers when they draw on their lines of credit. FHN then transfers the newly generated receivables into the securitization trust and is reimbursed only after other parties in the securitization have received all of the cash flows to which they are entitled. If loan losses requiring draws on the related monoline insurers policies, which protect bondholders in the securitization, exceed a certain level, FHN may not receive reimbursement for all of the funds advanced to borrowers, as the senior bondholders and the monoline insurers typically have priority for repayment. This securitization trust is currently consolidated by FHN due to FHN s status as the Master Servicer for the securitization and the retention of a significant residual interest. Because the trust is consolidated, amounts funded from monoline insurance policies are considered as additional restricted term borrowings in FHN s Consolidated Condensed Statements of Condition.

FHN has established certain rabbi trusts related to deferred compensation plans offered to its employees. FHN contributes employee cash compensation deferrals to the trusts and directs the underlying investments made by the trusts. The assets of these trusts are available to FHN s creditors only in the event that FHN becomes insolvent. These trusts are considered VIEs as there is no equity at risk in the trusts since FHN provided the equity interest to its employees in exchange for services rendered. FHN is considered the primary beneficiary of the rabbi trusts as it has the power to direct the activities that most significantly impact the economic performance of the rabbi trusts through its ability to direct the underlying investments made by the trusts. Additionally, FHN could potentially receive benefits or absorb losses that are significant to the trusts due to its right to receive any asset values in excess of liability payoffs and its obligation to fund any liabilities to employees that are in excess of a rabbi trust s assets.

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**Note 14 Variable Interest Entities (Continued)**

The following table summarizes VIEs consolidated by FHN as of September 30, 2014 and 2013:

| | **September 30, 2014** | | September 30, 2013 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **On-Balance Sheet Consumer Loan Securitizations Carrying Value** | **Rabbi Trusts Used for Deferred Compensation Plans Carrying Value** | On-Balance Sheet Consumer Loan Securitizations Carrying Value | Rabbi Trusts Used for Deferred Compensation Plans Carrying Value |
| **Assets:** | | | | |
| Cash and due from banks | **$ 300** | **N/A** | $ 1,494 | N/A |
| Loans, net of unearned income | **81,111** | **N/A** | 104,052 | N/A |
| Less: Allowance for loan losses | **812** | **N/A** | 3,217 | N/A |
| Total net loans | **80,299** | **N/A** | 100,835 | N/A |
| Other assets | **438** | **$ 66,290** | 1,435 | $ 63,238 |
| **Total assets** | **$ 81,037** | **$ 66,290** | $ 103,764 | $ 63,238 |
| **Liabilities:** | | | | |
| Term borrowings | **$ 70,720** | **N/A** | $ 93,700 | N/A |
| Other liabilities | **4** | **$ 50,477** | 19 | $ 49,469 |
| **Total liabilities** | **$ 70,724** | **$ 50,477** | $ 93,719 | $ 49,469 |

**Nonconsolidated Variable Interest Entities**

***Low Income Housing Partnerships.*** First Tennessee Housing Corporation ( FTHC ), a wholly-owned subsidiary of FTBNA, makes equity investments as a limited partner in various partnerships that sponsor affordable housing projects utilizing the Low Income Housing Tax Credit ( LIHTC ) pursuant to Section 42 of the Internal Revenue Code. The purpose of these investments is to achieve a satisfactory return on capital and to support FHN s community reinvestment initiatives. The activities of the limited partnerships include the identification, development, and operation of multi-family housing that is leased to qualifying residential tenants generally within FHN s primary geographic region. LIHTC partnerships are considered VIEs as FTHC, the holder of the equity investment at risk, does not have the ability to direct the activities that most significantly affect the performance of the entity through voting rights or similar rights. FTHC could absorb losses that are significant to the LIHTC partnerships as it has a risk of loss for its initial capital contributions and funding commitments to each partnership. The general partners are considered the primary beneficiaries as managerial functions give them the power to direct the activities that most significantly impact the partnerships economic performance and the general partners are exposed to all losses beyond FTHC s initial capital contributions and funding commitments.

***New Market Tax Credit LLCs.*** First Tennessee New Markets Corporation ( FTNMC ), a wholly-owned subsidiary of FTBNA, makes equity investments through wholly-owned subsidiaries as a non-managing member in various limited liability companies ( LLCs ) that sponsor community development projects utilizing the New Market Tax Credit ( NMTC ) pursuant to Section 45 of the Internal Revenue Code. The purpose of these investments is to achieve a satisfactory return on capital and to support FHN s community reinvestment initiatives. The activities of the LLCs include providing investment capital for low-income communities within FHN s primary geographic region. A portion of the funding of FTNMC s investment in a NMTC LLC is obtained via a loan from an unrelated third-party that is typically a community development enterprise. The NMTC LLCs are considered VIEs as FTNMC, the holder of the equity investment at risk, does not have the ability to direct the activities that most significantly affect the performance of the entity through voting rights or similar rights. While FTNMC could absorb losses that are significant to the NMTC LLCs as it has a risk of loss for its initial capital contributions, the managing members are considered the primary beneficiaries as managerial functions give them the power to direct the activities that most significantly impact the NMTC LLCs economic performance and the managing members are exposed to all losses beyond FTNMC s initial capital contributions.

***Small Issuer Trust Preferred Holdings***. FTBNA holds variable interests in trusts which have issued mandatorily redeemable preferred capital securities ( trust preferreds ) for smaller banking and insurance enterprises. FTBNA has no voting rights for the trusts activities. The trusts only assets are junior subordinated debentures of the issuing enterprises. The creditors of the trusts hold no recourse to the assets of FTBNA. These trusts meet the definition of a VIE as the holders of the equity investment at risk do not have the power through voting rights, or similar rights, to direct the activities that most significantly impact the trusts economic performance. Based on the nature of the trusts activities and the size of FTBNA s holdings, FTBNA could potentially receive benefits or absorb losses that are significant to the trusts regardless of whether a majority of a trust s securities are held by FTBNA. However, since FTBNA is solely a holder of the trusts securities, it has no rights which would give it the power to direct the activities that most significantly impact the trusts economic performance and thus it is not considered the primary beneficiary of the trusts. FTBNA has no contractual requirements to provide financial support to the trusts.

**Note 14 Variable Interest Entities (Continued)**

***On-Balance Sheet Trust Preferred Securitization.*** In 2007, FTBNA executed a securitization of certain small issuer trust preferreds for which the underlying trust meets the definition of a VIE as the holders of the equity investment at risk do not have the power through voting rights, or similar rights, to direct the activities that most significantly impact the entity s economic performance. FTBNA could potentially receive benefits or absorb losses that are significant to the trust based on the size and priority of the interests it retained in the securities issued by the trust. However, since FTBNA did not retain servicing or other decision making rights, FTBNA is not the primary beneficiary as it does not have the power to direct the activities that most significantly impact the trust s economic performance. Accordingly, FTBNA has accounted for the funds received through the securitization as a term borrowing in its Consolidated Condensed Statements of Condition. FTBNA has no contractual requirements to provide financial support to the trust.

***Proprietary Trust Preferred Issuances.*** FHN has previously issued junior subordinated debt to First Tennessee Capital II ( Capital II ). Capital II is considered a VIE as FHN s capital contributions to this trust are not considered at risk in evaluating whether the holders of the equity investments at risk in the trust have the power through voting rights, or similar rights, to direct the activities that most significantly impact the entity s economic performance. FHN is not the trust s primary beneficiary as FHN s capital contributions to the trust are not considered variable interests as they are not at risk . Consequently, Capital II is not consolidated by FHN.

***Proprietary Residential Mortgage Securitizations.*** FHN holds variable interests in proprietary residential mortgage securitization trusts it established prior to 2008 as a source of liquidity for its mortgage banking operations. Except for recourse due to breaches of representations and warranties made by FHN in connection with the sale of the loans to the trusts, the creditors of the trusts hold no recourse to the assets of FHN. Additionally, FHN has no contractual requirements to provide financial support to the trusts. Based on their restrictive nature, the trusts are considered VIEs as the holders of equity at risk do not have the power through voting rights, or similar rights, to direct the activities that most significantly impact the trusts economic performance. While FHN is assumed to have the power as servicer to most significantly impact the activities of such VIEs, in situations where FHN does not have the ability to participate in significant portions of a securitization trust s cash flows, it is not considered the primary beneficiary of the trust. Therefore, these trusts are not consolidated by FHN. Upon closing of the servicing sales in first quarter 2014, FHN s interests in these securitizations declined substantially.

***Agency Residential Mortgage Securitizations.*** During fourth quarter 2013, FHN completed the sale of substantially all servicing for Agency securitizations resulting in the de-recognition of its interests in these trusts.

Prior to third quarter 2008, FHN transferred first lien mortgages that were included in Agency-sponsored securitizations and retained MSR and in certain situations various other interests. Except for recourse due to breaches of standard representations and warranties made by FHN in connection with the sale of the loans to the trusts, the creditors of the trusts held no recourse to the assets of FHN. Additionally, FHN had no contractual requirements to provide financial support to the trusts. The Agencies or designated third parties status as Master Servicer and the rights they hold consistent with their guarantees on the securities issued provide them with the power to direct the activities that most significantly impact the trusts economic performance. Thus, such trusts were not consolidated by FHN as it was not considered the primary beneficiary even in situations where it could potentially receive benefits or absorb losses that were significant to the trusts.

In relation to certain Agency securitizations, FHN purchased the servicing rights on securitized loans from the loan originator and held other retained interests. Based on their restrictive nature, the trusts meet the definition of a VIE since the holders of the equity investments at risk do not have the power through voting rights, or similar rights, to direct the activities that most significantly impact the trusts economic performance. As the Agencies serve as Master Servicer for the securitized loans and hold rights consistent with their guarantees on the securities issued, they have the power to direct the activities that most significantly impact the trusts economic performance. Thus, FHN was not considered the primary beneficiary even in situations where it could potentially receive benefits or absorb losses that were significant to the trusts. FHN had no contractual requirements to provide financial support to the trusts.

***On-Balance Sheet Consumer Loan Securitizations.*** Prior to March 31, 2014 FHN held variable interests in proprietary residential mortgage securitization trusts it established prior to 2008 as a source of liquidity for its consumer lending operations. Except for recourse due to breaches of representations and warranties made by FHN in connection with the sale of the loans to the trusts, the creditors of the trusts held no recourse to the assets of FHN. Based on their restrictive nature, the trusts were considered VIEs as the holders of equity at risk did not have the power through voting rights or similar rights to direct the activities that most significantly impact the trusts economic performance. The nonconsolidated proprietary residential mortgage securitizations as of September 30, 2013, consisted of two HELOC securitization trusts that had entered a rapid amortization period and for which FHN was obligated to provide subordinated funding. These securitization trusts were not consolidated by FHN as it was not the Master Servicer for the securitizations. FHN s holding of a unilateral call right to reclaim specific assets in the trusts precluded sale accounting for the related securitization transactions. Thus, even though FHN was not the Master Servicer, the related transactions were accounted for as secured borrowings, with the associated loans and secured debt remaining within FHN s Consolidated Condensed Financial Statements. These trusts were collapsed in first quarter 2014 as the collateral (loans) of the trust were repurchased and FHN eliminated the associated secured borrowing on the Consolidated Condensed Statements of Condition.

**Note 14 Variable Interest Entities (Continued)**

***Holdings & Short Positions in Agency Mortgage-Backed Securities.*** FHN holds securities issued by various Agency securitization trusts. Based on their restrictive nature, the trusts meet the definition of a VIE since the holders of the equity investments at risk do not have the power through voting rights, or similar rights, to direct the activities that most significantly impact the entities economic performance. FHN could potentially receive benefits or absorb losses that are significant to the trusts based on the nature of the trusts activities and the size of FHN s holdings. However, FHN is solely a holder of the trusts securities and does not have the power to direct the activities that most significantly impact the trusts economic performance, and is not considered the primary beneficiary of the trusts. FHN has no contractual requirements to provide financial support to the trusts.

***Commercial Loan Troubled Debt Restructurings.*** For certain troubled commercial loans, FTBNA restructures the terms of the borrower s debt in an effort to increase the probability of receipt of amounts contractually due. Following a troubled debt restructuring, the borrower entity typically meets the definition of a VIE as the initial determination of whether an entity is a VIE must be reconsidered as events have proven that the entity s equity is not sufficient to permit it to finance its activities without additional subordinated financial support or a restructuring of the terms of its financing. As FTBNA does not have the power to direct the activities that most significantly impact such troubled commercial borrowers operations, it is not considered the primary beneficiary even in situations where, based on the size of the financing provided, FTBNA is exposed to potentially significant benefits and losses of the borrowing entity. FTBNA has no contractual requirements to provide financial support to the borrowing entities beyond certain funding commitments established upon restructuring of the terms of the debt that allows for preparation of the underlying collateral for sale.

***Managed Discretionary Trusts.*** FHN serves as manager over certain discretionary trusts for which it makes investment decisions on behalf of the trusts beneficiaries in return for a reasonable management fee. The trusts meet the definition of a VIE since the holders of the equity investments at risk do not have the power, through voting rights or similar rights, to direct the activities that most significantly impact the entities economic performance. The management fees FHN receives are not considered variable interests in the trusts as all of the requirements related to permitted levels of decision maker fees are met. Therefore, the VIEs are not consolidated by FHN as it is not the trusts primary beneficiary. FHN has no contractual requirements to provide financial support to the trusts.

The following table summarizes FHN s nonconsolidated VIEs as of September 30, 2014:

| *(Dollars in thousands)* | Maximum Loss Exposure | Liability Recognized | Classification |
|---|---|---|---|
| **Type** | | | |
| Low income housing partnerships (a) (b) | $ 49,317 | $ | Other assets |
| New market tax credit LLCs (b) (c) | 21,929 | | Other assets |
| Small issuer trust preferred holdings (d) | 364,912 | | Loans, net of unearned income |
| On-balance sheet trust preferred securitization | 52,320 | 61,853 | (e) |

| | | | |
|---|---|---|---|
| Proprietary trust preferred issuances (f) | N/A | 206,186 | Term borrowings |
| Proprietary and agency residential mortgage securitizations | 26,973 | | (g) |
| Holdings of agency mortgage-backed securities (d) | 3,843,125 | | (h) |
| Commercial loan troubled debt restructurings (i) (j) | 55,539 | | Loans, net of unearned income |
| Managed discretionary trusts (f) | N/A | N/A | N/A |

(a) Maximum loss exposure represents $43.5 million of current investments and $5.9 million of contractual funding commitments. Only the current investment amount is included in Other assets.

(b) A liability is not recognized as investments are written down over the life of the related tax credit.

(c) Maximum loss exposure represents current investment balance. Of the initial investment, $18.0 million was funded through loans from community development enterprises.

(d) Maximum loss exposure represents the value of current investments. A liability is not recognized as FHN is solely a holder of the trusts securities.

(e) Includes $112.5 million classified as Loans, net of unearned income, and $1.7 million classified as Trading securities which are offset by $61.9 million classified as Term borrowings.

(f) No exposure to loss due to the nature of FHN s involvement.

(g) Includes $.7 million and $.2 million classified as MSR related to proprietary and agency residential mortgage securitizations, respectively, and $6.1 million classified as Trading securities related to proprietary residential mortgage securitizations. Aggregate servicing advances of $19.9 million are classified as Other assets.

(h) Includes $502.6 million classified as Trading securities and $3.3 billion classified as Securities available-for-sale.

(i) Maximum loss exposure represents $52.4 million of current receivables and $3.1 million of contractual funding commitments on loans related to commercial borrowers involved in a troubled debt restructuring.

(j) A liability is not recognized as the loans are the only variable interests held in the troubled commercial borrowers operations.

**Note 14 Variable Interest Entities (Continued)**

The following table summarizes FHN s nonconsolidated VIEs as of September 30, 2013:

| *(Dollars in thousands)* | Maximum Loss Exposure | Liability Recognized | Classification |
|---|---|---|---|
| **Type** | | | |
| Low income housing partnerships (a) (b) | $ 53,123 | $ | Other assets |
| New market tax credit LLCs (b) (c) | 23,014 | | Other assets |
| Small issuer trust preferred holdings (d) | 402,307 | | Loans, net of unearned income |
| On-balance sheet trust preferred securitization | 54,314 | 59,860 | (e) |
| Proprietary trust preferred issuances (f) | N/A | 206,186 | Term borrowings |
| Proprietary and agency residential mortgage securitizations | 409,429 | | (g) |
| On-balance sheet consumer loan securitizations | 21,084 | 235,874 | (h) |
| Holdings of agency mortgage-backed securities (d) | 3,398,870 | | (i) |
| Short positions in agency mortgage-backed securities (f) | N/A | 1,545 | Trading liabilities |
| Commercial loan troubled debt restructurings (j) (k) | 73,127 | | Loans, net of unearned income |
| Managed discretionary trusts (f) | N/A | N/A | N/A |

(a) Maximum loss exposure represents $46.1 million of current investments and $7.0 million of contractual funding commitments. Only the current investment amount is included in Other assets.
(b) A liability is not recognized as investments are written down over the life of the related tax credit.
(c) Maximum loss exposure represents current investment balance. Of the initial investment, $18.0 million was funded through loans from community development enterprises.
(d) Maximum loss exposure represents the value of current investments. A liability is not recognized as FHN is solely a holder of the trusts securities.
(e) Includes $112.5 million classified as Loans, net of unearned income, and $1.7 million classified as Trading securities which are offset by $59.9 million classified as Term borrowings.
(f) No exposure to loss due to the nature of FHN s involvement.
(g) Includes $72.9 million and $31.8 million classified as MSR and $7.3 million and $8.4 million classified as Trading securities related to proprietary and agency residential mortgage securitizations, respectively. Aggregate servicing advances of $289.1 million are classified as Other assets.

(h) Includes $257.0 million classified as Loans, net of unearned income which are offset by $235.9 million classified as Term borrowings.
(i) Includes $498.3 million classified as Trading securities and $2.9 billion classified as Securities available-for-sale.
(j) Maximum loss exposure represents $70.2 million of current receivables and $2.9 million of contractual funding commitments on loans related to commercial borrowers involved in a troubled debt restructuring.
(k) A liability is not recognized as the loans are the only variable interests held in the troubled commercial borrowers operations.

Prior to 2009, FHN utilized loan sales and securitizations as a significant source of liquidity for its mortgage banking operations. FHN no longer retains financial interests in loans it transfers to third parties.

***Retained Interests***

With the sales of substantially all servicing by the end of first quarter 2014, prior transfers of financial assets in which FHN has continuing involvement are no longer significant. See Note 11 Contingencies and Other Disclosures for information regarding FHN s repurchase exposure for claims that FHN breached its standard representations and warranties made in connection with the sale of loans to proprietary and agency residential mortgage securitization trusts.

For the three and nine months ended September 30, 2013, cash flows received and paid related to loan sales and securitizations where FHN had continuing involvement were as follows:

| *(Dollars in thousands)* | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2013 |
|---|---|---|
| Proceeds from initial sales | $ | $ 10,843 |
| Servicing fees retained (a) | 11,261 | 36,542 |
| Purchases of GNMA guaranteed mortgages | 17,797 | 88,652 |
| Purchases of previously transferred financial assets (b) (c) | 41,916 | 266,266 |
| Other cash flows received on retained interests | 1,260 | 4,088 |

(a) Included servicing fees on MSR associated with loan sales and purchased MSR.
(b) Included repurchases of delinquent and performing loans, foreclosed assets, and make-whole payments for economic losses incurred by purchaser. Also included buyouts from GSEs in order to facilitate foreclosures.
(c) Nine months ended September 30, 2013, included $74.7 million of cash paid related to clean-up calls exercised by FHN.

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## Note 14 Variable Interest Entities (Continued)

The principal amount of loans transferred through loan sales and securitizations and other loans managed with them in which FHN had continuing involvement, the principal amount of delinquent loans, and the net credit losses during the three and nine months ended September 30, 2013 are as follows:

| (Dollars in thousands) | Principal Amount of Residential Real Estate Loans (a) (b) (c) September 30, 2013 | Net Credit Losses (c) Three Months Ended September 30, 2013 | Net Credit Losses (c) Nine Months Ended September 30, 2013 |
|---|---|---|---|
| Total loans managed or transferred | $ 13,016,536 | $ 47,832 | $ 185,443 |

(a) Amounts represent real estate residential loans in FHN s portfolio, held-for-sale, and loans that have been transferred in proprietary securitizations and whole loan sales in which FHN had a retained interest other than servicing rights. Also included $4.4 billion of loans transferred to GSEs with any type of retained interest other than servicing rights.

(b) Includes $.7 billion where the principal amount is 90 days or more past due or nonaccrual. Included in this amount was $41.9 million of GNMA guaranteed mortgages.

(c) No delinquency or net credit loss data is provided for the loans transferred to FNMA or FHLMC because these agencies retain credit risk. See Note 11 Contingencies and Other Disclosures for discussion related to repurchase obligations for loans transferred to GSEs or private investors.

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## Note 15 Derivatives

In the normal course of business, FHN utilizes various financial instruments (including derivative contracts and credit-related agreements) through its capital markets and risk management operations, as part of its risk management strategy and as a means to meet customers needs. Additionally, FHN used derivatives to hedge MSR, but such hedges were terminated in third quarter 2013 when FHN entered into an agreement to sell substantially all MSR. Derivative instruments are subject to credit and market risks in excess of the amount recorded on the balance sheet as required by GAAP. The contractual or notional amounts of these financial instruments do not necessarily represent credit or market risk. However, they can be used to measure the extent of involvement in various types of financial instruments. Controls and monitoring procedures for these instruments have been established and are routinely reevaluated. The Asset/Liability Committee ( ALCO ) monitors the usage and effectiveness of these financial instruments.

Credit risk represents the potential loss that may occur if a party to a transaction fails to perform according to the terms of the contract. The measure of credit exposure is the replacement cost of contracts with a positive fair value. FHN manages credit risk by entering into financial instrument transactions through national exchanges, primary dealers or approved counterparties, and using mutual margining and master netting agreements whenever possible to limit potential exposure. FHN also maintains collateral posting requirements with certain counterparties to limit credit risk. On September 30, 2014 and 2013, respectively, FHN had $89.8 million and $111.7 million of cash receivables and $68.1 million and $90.1 million of cash payables related to collateral posting under master netting arrangements, inclusive of collateral posted related to contracts with adjustable collateral posting thresholds and over collateralized positions, with derivative counterparties. With exchange-traded contracts, the credit risk is limited to the clearinghouse used. For non-exchange traded instruments, credit risk may occur when there is a gain in the fair value of the financial instrument and the counterparty fails to perform according to the terms of the contract and/or when the collateral proves to be of insufficient value. See additional discussion regarding master netting agreements and collateral posting requirements later in this note under the heading Master Netting and Similar Agreements. Market risk represents the potential loss due to the decrease in the value of a financial instrument caused primarily by changes in interest rates or the prices of debt instruments. FHN manages market risk by establishing and monitoring limits on the types and degree of risk that may be undertaken. FHN continually measures this risk through the use of models that measure value-at-risk and earnings-at-risk.

***Derivative Instruments.*** FHN enters into various derivative contracts both in a dealer capacity, to facilitate customer transactions, and as a risk management tool. Where contracts have been created for customers, FHN enters into transactions with dealers to offset its risk exposure. Contracts with dealers that require central clearing are novated to a clearing agent who becomes FHN s counterparty. Derivatives are also used as a risk management tool to hedge FHN s exposure to changes in interest rates or other defined market risks.

Forward contracts are over-the-counter contracts where two parties agree to purchase and sell a specific quantity of a financial instrument at a specified price, with delivery or settlement at a specified date. Futures contracts are exchange-traded contracts where two parties agree to purchase and sell a specific quantity of a financial instrument at a specified price, with delivery or settlement at a specified date. Interest rate option contracts give the purchaser the right, but not the obligation, to buy or sell a specified quantity of a financial instrument, at a specified price, during a specified period of time. Caps and floors are options that are linked to a notional principal amount and an underlying indexed interest rate. Interest rate swaps involve the exchange of interest payments at specified intervals between two parties without the exchange of any underlying principal. Swaptions are options on interest rate swaps that give the purchaser the right, but not the obligation, to enter into an interest rate swap agreement during a specified period of time.

Capital Markets

Capital markets trades U.S. Treasury, U.S. Agency, mortgage-backed, corporate and municipal fixed income securities, and other securities principally for distribution to customers. When these securities settle on a delayed basis, they are considered forward contracts. Capital markets also enters into interest rate contracts, including caps, swaps, and floors, for its customers. In addition, capital markets enters into futures and option contracts to economically hedge interest rate risk associated with a portion of its securities inventory. These transactions are measured at fair value, with changes in fair value recognized currently in Capital markets noninterest income. Related assets and liabilities are recorded on the Consolidated Condensed Statements of Condition as Derivative assets and Derivative liabilities. The FTN Financial Risk Committee and the Credit Risk Management Committee collaborate to mitigate credit risk related to these transactions. Credit risk is controlled through credit approvals, risk control limits, and ongoing monitoring procedures. Total trading revenues were $41.2 million and $54.4 million for the three months ended September 30, 2014 and 2013, respectively, and $131.3 million and $180.9 million for the nine months ended September 30, 2014 and 2013, respectively. Total revenues are inclusive of both derivative and non-derivative financial instruments, and are included in Capital markets noninterest income.

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**Note 15 Derivatives (Continued)**

The following tables summarize FHN s derivatives associated with capital markets trading activities as of September 30, 2014 and 2013:

| | September 30, 2014 | | |
|---|---|---|---|
| *(Dollars in thousands)* | **Notional** | **Assets** | **Liabilities** |
| Customer Interest Rate Contracts | $ 1,731,047 | $ 69,878 | $ 5,778 |
| Offsetting Upstream Interest Rate Contracts | 1,731,047 | 5,778 | 69,878 |
| Option Contracts Purchased | 10,000 | 27 | |
| Option Contracts Written | 7,500 | | 6 |
| Forwards and Futures Purchased | 1,866,521 | 2,047 | 614 |
| Forwards and Futures Sold | 2,311,144 | 1,134 | 2,281 |

| | September 30, 2013 | | |
|---|---|---|---|
| *(Dollars in thousands)* | **Notional** | **Assets** | **Liabilities** |
| Customer Interest Rate Contracts | $ 1,742,060 | $ 88,154 | $ 6,880 |
| Offsetting Upstream Interest Rate Contracts | 1,742,060 | 6,880 | 88,154 |
| Forwards and Futures Purchased | 1,664,813 | 208 | 9,296 |
| Forwards and Futures Sold | 2,038,677 | 16,669 | 474 |

Interest Rate Risk Management

FHN s ALCO focuses on managing market risk by controlling and limiting earnings volatility attributable to changes in interest rates. Interest rate risk exists to the extent that interest-earning assets and interest-bearing liabilities have different maturity or repricing characteristics. FHN uses derivatives, including swaps, caps, options, and collars, that are designed to moderate the impact on earnings as interest rates change. Interest paid or received for swaps utilized by FHN to hedge the fair value of long term debt is recognized as an adjustment of the interest expense of the liabilities whose risk is being managed. FHN s interest rate risk management policy is to use derivatives to hedge interest rate risk or market value of assets or liabilities, not to speculate. In addition, FHN has entered into certain interest rate swaps and caps as a part of a product offering to commercial customers that includes customer derivatives paired with upstream offsetting market instruments that, when completed, are designed to mitigate interest rate risk. These contracts do not qualify for hedge accounting and are measured at fair value with gains or losses included in current earnings in Noninterest expense on the Consolidated Condensed Statements of Income.

FHN has entered into pay floating, receive fixed interest rate swaps to hedge the interest rate risk of certain term borrowings totaling $554.0 million on September 30, 2014 and 2013, respectively. These swaps have been accounted for as fair value hedges under the shortcut method. The balance sheet amount of these swaps was $21.4 million and $46.1 million in Derivative assets on September 30, 2014 and 2013, respectively.

FHN has designated a derivative transaction in a hedging strategy to manage interest rate risk on its $500 million noncallable senior debt maturing in December 2015. This derivative qualifies for hedge accounting under ASC 815-20 using the long-haul method. FHN entered into a pay floating, receive fixed interest rate swap to hedge the interest rate risk on this debt. The balance sheet amount of this swap was $11.3 million and $20.0 million in Derivative assets as of

September 30, 2014 and 2013, respectively. There was no ineffectiveness related to this hedge.

FHN designates derivative transactions in hedging strategies to manage interest rate risk on subordinated debt related to its trust preferred securities. These qualify for hedge accounting under ASC 815-20 using the long-haul method. FHN hedges the interest rate risk of the subordinated debt totaling $200 million using pay floating, receive fixed interest rate swaps. The balance sheet amount of these swaps was $9.8 million and $19.6 million in Derivative liabilities as of September 30, 2014 and 2013, respectively. There was no ineffectiveness related to these hedges.

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**Note 15 Derivatives (Continued)**

The following tables summarize FHN s derivatives associated with interest rate risk management activities as of and for the three and nine months ended September 30, 2014 and 2013:

| *(Dollars in thousands)* | Notional | Assets | Liabilities | Gains/(Losses) Three Months Ended September 30, 2014 | Gains/(Losses) Nine Months Ended September 30, 2014 |
|---|---|---|---|---|---|
| **Customer Interest Rate Contracts Hedging** | | | | | |
| *Hedging Instruments and Hedged Items:* | | | | | |
| Customer Interest Rate Contracts (a) | $ 742,065 | $ 25,039 | $ 1,128 | $ (3,235) | $ (1,166) |
| Offsetting Upstream Interest Rate Contracts (a) | 742,065 | 1,128 | 25,539 | 3,235 | 1,166 |
| **Debt Hedging** | | | | | |
| *Hedging Instruments:* | | | | | |
| Interest Rate Swaps (b) | $ 1,254,000 | $ 32,711 | $ 9,787 | $ (7,074) | $ (10,313) |
| *Hedged Items:* | | | | | |
| Term Borrowings (b) | N/A | N/A | $ 1,254,000(c) | $ 7,074(d) | $ 10,313(d) |

| *(Dollars in thousands)* | Notional | Assets | Liabilities | Gains/(Losses) Three Months Ended September 30, 2013 | Gains/(Losses) Nine Months Ended September 30, 2013 |
|---|---|---|---|---|---|
| **Customer Interest Rate Contracts Hedging** | | | | | |
| *Hedging Instruments and Hedged Items:* | | | | | |
| Customer Interest Rate Contracts (a) | $ 801,260 | $ 34,703 | $ 2,452 | $ (1,464) | $ (22,673) |
| Offsetting Upstream Interest Rate Contracts (a) | 817,901 | 2,453 | 35,203 | 1,465 | 23,374 |
| **Debt Hedging** | | | | | |
| *Hedging Instruments:* | | | | | |
| Interest Rate Swaps (b) | $ 1,254,000 | $ 66,049 | $ 19,622 | $ (6,430) | $ (48,777) |
| *Hedged Items:* | | | | | |
| Term Borrowings (b) | N/A | N/A | $ 1,254,000(c) | $ 6,430(d) | $ 48,777(d) |

(a) Gains/losses included in the Other expense section of the Consolidated Condensed Statements of Income.
(b) Gains/losses included in the All other income and commissions section of the Consolidated Condensed Statements of Income.
(c) Represents par value of term borrowings being hedged.
(d)

Represents gains and losses attributable to changes in fair value due to interest rate risk as designated in ASC 815-20 hedging relationships.

FHN hedges held-to-maturity trust preferred loans with a principal balance of $6.5 million as of September 30, 2014 and 2013, which have an initial fixed rate term before conversion to a floating rate. FHN has entered into pay fixed, receive floating interest rate swaps to hedge the interest rate risk associated with this initial term. These hedge relationships qualify as fair value hedges under ASC 815-20. The impact of these swaps was $.8 million and $1.1 million in Derivative liabilities on the Consolidated Condensed Statements of Condition as of September 30, 2014 and 2013, respectively. Interest paid or received for these swaps is recognized as an adjustment of the interest income of the assets whose risk is being hedged. Basis adjustments remaining at the end of the hedge term are being amortized as an adjustment to interest income over the remaining life of the loans. Gains or losses are included in Other income and commissions on the Consolidated Condensed Statements of Income.

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**Note 15 Derivatives (Continued)**

The following tables summarize FHN s derivative activities associated with held-to-maturity trust preferred loans as of and for the three and nine months ended September 30, 2014 and 2013:

| *(Dollars in thousands)* | Notional | Assets | Liabilities | Gains/(Losses) Three Months Ended September 30, 2014 | Gains/(Losses) Nine Months Ended September 30, 2014 |
|---|---|---|---|---|---|
| **Loan Portfolio Hedging** | | | | | |
| *Hedging Instruments:* | | | | | |
| Interest Rate Swaps | $ 6,500 | N/A | $ 791 | $ 110 | $ 215 |
| *Hedged Items:* | | | | | |
| Trust Preferred Loans (a) | N/A | $ 6,500(b) | N/A | $ (109)(c) | $ (213)(c) |

| *(Dollars in thousands)* | Notional | Assets | Liabilities | Gains/(Losses) Three Months Ended September 30, 2013 | Gains/(Losses) Nine Months Ended September 30, 2013 |
|---|---|---|---|---|---|
| **Loan Portfolio Hedging** | | | | | |
| *Hedging Instruments:* | | | | | |
| Interest Rate Swaps | $ 6,500 | N/A | $ 1,091 | $ 27 | $ 951 |
| *Hedged Items:* | | | | | |
| Trust Preferred Loans (a) | N/A | $ 6,500(b) | N/A | $ (25)(c) | $ (946)(c) |

(a) Assets included in the Loans, net of unearned income section of the Consolidated Condensed Statements of Condition.
(b) Represents principal balance being hedged.
(c) Represents gains and losses attributable to changes in fair value due to interest rate risk as designated in ASC 815-20 hedging relationships.

Other Derivatives

In conjunction with the sales of a portion of its Visa Class B shares, FHN and the purchaser entered into derivative transactions whereby FHN will make or receive cash payments whenever the conversion ratio of the Visa Class B shares into Visa Class A shares is adjusted. As of September 30, 2014, the derivative liabilities associated with the sales of Visa Class B shares were $7.6 million compared to $2.7 million as of September 30, 2013. See the Visa Matters section of Note 11 Contingencies and Other Disclosures for more information regarding FHN s Visa shares.

FHN utilizes cross currency swaps and cross currency interest rate swaps to economically hedge its exposure to foreign currency risk and interest rate risk associated with non-U.S. dollar denominated loans. As of September 30, 2014, these loans were settled and so were the derivatives associated with them. As of September 30, 2013, these loans were valued at $.6 million, the balance sheet amount and the gains/losses associated with these derivatives were not material.

Legacy Mortgage Servicing Operations

*Retained Interests*

Prior to first quarter 2014, FHN had significantly larger amounts of retained mortgage servicing rights. FHN revalued MSR to current fair value each month with changes in fair value included in servicing income in Mortgage banking noninterest income on the Consolidated Condensed Statements of Income. FHN entered into interest rate contracts (potentially including swaps, swaptions, and mortgage forward purchase contracts) to hedge against the effects of changes in fair value of its MSR associated with increased prepayment activity that generally results from declining interest rates. Substantially all capitalized MSR were hedged for economic purposes. In third quarter 2013, in conjunction with the agreement to sell legacy mortgage servicing, FHN removed all hedges associated with MSR and interest-only securities.

FHN utilized derivatives as an economic hedge (potentially including swaps, swaptions, and mortgage forward purchase contracts) to protect the value of its interest-only securities that change in value inversely to the movement of interest rates. Interest-only securities are included in Trading securities on the Consolidated Condensed Statements of Condition. Changes in the fair value of these derivatives and the hedged interest-only securities are recognized currently in earnings in Mortgage banking noninterest income as a component of servicing income on the Consolidated Condensed Statements of Income.

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**Note 15 Derivatives (Continued)**

The following table summarizes FHN s derivatives associated with legacy mortgage servicing activities as of and for the three and nine months ended September 30, 2013:

| *(Dollars in thousands)* | **Notional** | **Assets** | **Liabilities** | **Gains/(Losses) Three Months Ended September 30, 2013** | **Gains/(Losses) Nine Months Ended September 30, 2013** |
|---|---|---|---|---|---|
| **Retained Interests Hedging** | | | | | |
| *Hedging Instruments:* | | | | | |
| Forwards and Futures | $ | $ | $ | $ 159 | $ (3,047) |
| Interest Rate Swaps and Swaptions | | | | 1,305 | (4,275) |
| *Hedged Items:* | | | | | |
| Mortgage Servicing Rights | N/A | $ 114,318 | N/A | $ 9,844 | $ 20,174 |
| Other Retained Interests | N/A | 15,714 | N/A | 1,628 | 3,422 |

Master Netting and Similar Agreements

As previously discussed, FHN uses master netting agreements, mutual margining agreements and collateral posting requirements to minimize credit risk on derivative contracts. Master netting and similar agreements are used when counterparties have multiple derivatives contracts that allow for a right of setoff, meaning that a counterparty may net offsetting positions and collateral with the same counterparty under the contract to determine a net receivable or payable. The following discussion provides an overview of these arrangements which may vary due to the derivative type and market in which a derivative transaction is executed.

Interest rate derivatives are subject to agreements consistent with standard agreement forms of the International Swap and Derivatives Association ( ISDA ). Currently, all interest rate derivative contracts are entered into as over-the-counter transactions and collateral posting requirements are based on the net asset or liability position with each respective counterparty. For contracts that require central clearing, novation to a central counterparty clearinghouse occurs and collateral is posted. Cash collateral received (posted) for interest rate derivatives is recognized as a liability (asset) on FHN s balance sheet.

Interest rate derivatives with customers that are smaller financial institutions typically require posting of collateral by the counterparty to FHN. This collateral is subject to a threshold with daily adjustments based upon changes in the level or fair value of the derivative position. Positions and related collateral can be netted in the event of default. Collateral pledged by a counterparty is typically cash or securities. The securities pledged as collateral are not recognized within FHN s Consolidated Condensed Statements of Condition. Interest rate derivatives associated with lending arrangements share the collateral with the related loan(s). The derivative and loan positions may be netted in the event of default. For disclosure purposes, the entire collateral amount is allocated to the loan.

Interest rate derivatives with larger financial institutions entered into prior to required central clearing typically contain provisions whereby the collateral posting thresholds under the agreements adjust based on the credit ratings of both counterparties. If the credit rating of FHN and/or FTBNA is lowered, FHN could be required to post additional collateral with the counterparties. Conversely, if the credit rating of FHN and/or FTBNA is increased, FHN could have collateral released and be required to post less collateral in the future. Also, if a counterparty s credit ratings were to decrease, FHN and/or FTBNA could request the posting of additional collateral; whereas if a counterparty s credit ratings were to increase, the counterparty could request the release of excess collateral. Collateral for these arrangements is adjusted daily based on changes in the net fair value position with each counterparty.

The net fair value, determined by individual counterparty, of all derivative instruments with adjustable collateral posting thresholds was $104.7 million of assets and $77.6 million of liabilities on September 30, 2014, and $144.5 million of assets and $110.3 million of liabilities on September 30, 2013. As of September 30, 2014 and 2013, FHN had received collateral of $191.5 million and $213.2 million and posted collateral of $80.6 million and $102.5 million, respectively, in the normal course of business related to these agreements.

Certain agreements entered into prior to required central clearing also contain accelerated termination provisions, inclusive of the right of offset, if a counterparty s credit rating falls below a specified level. If a counterparty s debt rating (including FHN s and FTBNA s) were to fall below these minimums, these provisions would be triggered, and the counterparties could terminate the agreements and request immediate settlement of all derivative contracts under the agreements. The net fair value, determined by individual counterparty, of all derivative instruments with credit-risk-related contingent accelerated termination provisions was $104.7 million of assets and $19.1 million of liabilities on September 30, 2014, and $144.5 million of assets and $27.1 million of liabilities on September 30, 2013. As of September 30, 2014 and 2013, FHN had received collateral of $191.5 million and $213.2 million and posted collateral of $26.3 million and $24.4 million, respectively, in the normal course of business related to these contracts.

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**Note 15 Derivatives (Continued)**

Capital Markets buys and sells various types of securities for its customers. When these securities settle on a delayed basis, they are considered forward contracts, and are generally not subject to master netting agreements. Forwards purchased and sold through legacy mortgage banking activities typically consisted of mortgage to be announced ( TBA ) trades for which FHN utilized a clearinghouse for settlement. In the event of default, all open positions can be offset. For futures and options, FHN transacts through a third party, and the transactions are subject to margin and collateral maintenance requirements. In the event of default, open positions can be offset along with the associated collateral.

For this disclosure, FHN considers the impact of master netting and other similar agreements which allow FHN to settle all contracts with a single counterparty on a net basis and to offset the net derivative asset or liability position with the related securities and cash collateral. The application of the collateral cannot reduce the net derivative asset or liability position below zero, and therefore any excess collateral is not reflected in the tables below.

The following table provides a detail of derivative assets and collateral received as presented on the Consolidated Condensed Statements of Condition as of September 30:

| | | | | Gross amounts not offset in the Statement of Condition | | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Gross amounts of recognized assets | Gross amounts offset in the Statement of Condition | Net amounts of assets presented in the Statement of Condition (a) | Derivative liabilities available for offset | Collateral Received | Net amount |
| Derivative assets: | | | | | | |
| **2014 (b)** | **$ 134,534** | **$** | **$ 134,534** | **$ (24,210)** | **$ (110,262)** | **$ 62** |
| 2013 (b) | 198,238 | | 198,238 | (36,770) | (161,468) | |

(a) Included in Derivative Assets on the Consolidated Condensed Statements of Condition. As of September 30, 2014 and 2013, $3.2 million and $16.9 million, respectively, of derivative assets (primarily capital markets forward contracts) have been excluded from these tables because they are generally not subject to master netting or similar agreements.

(b) 2014 and 2013 are comprised entirely of interest rate derivative contracts.

The following table provides a detail of derivative liabilities and collateral pledged as presented on the Consolidated Condensed Statements of Condition as of September 30:

Gross amounts not offset in the Statement of Condition

| *(Dollars in thousands)* | Gross amounts of recognized liabilities | Gross amounts offset in the Statement of Condition | Net amounts of liabilities presented in the Statement of Condition (a) | Derivative assets available for offset | Collateral pledged | Net amount |
|---|---|---|---|---|---|---|
| Derivative liabilities: | | | | | | |
| **2014 (b)** | **$ 112,901** | **$** | **$ 112,901** | **$ (24,210)** | **$ (77,755)** | **$ 10,936** |
| 2013 (b) | 153,403 | | 153,403 | (36,770) | (109,079) | 7,554 |

(a) Included in Derivative Liabilities on the Consolidated Condensed Statements of Condition. As of September 30, 2014 and 2013, $10.5 million and $12.5 million, respectively, of derivative liabilities (primarily capital markets forward contracts) have been excluded from these tables because they are generally not subject to master netting or similar agreements.

(b) 2014 and 2013 are comprised entirely of interest rate derivative contracts.

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**Note 16    Master Netting and Similar Agreements  Repurchase, Reverse Repurchase, and Securities Borrowing and Lending Transactions**

For repurchase, reverse repurchase and securities borrowing and lending transactions, FHN and each counterparty have the ability to offset all open positions and related collateral in the event of default. Due to the nature of these transactions, the value of the collateral for each transaction approximates the value of the corresponding receivable or payable. For repurchase agreements within FHN s capital markets  business, transactions are collateralized by securities which are delivered on the settlement date and are maintained throughout the term of the transaction. For FHN s repurchase agreements through banking activities, securities are typically pledged at the time of the transaction and not released until settlement. For asset positions, the collateral is not included on FHN s Consolidated Condensed Statements of Condition. For liability positions, securities collateral pledged by FHN is generally represented within FHN s trading or available-for-sale securities portfolios.

For this disclosure, FHN considers the impact of master netting and other similar agreements that allow FHN to settle all contracts with a single counterparty on a net basis and to offset the net asset or liability position with the related securities collateral. The application of the collateral cannot reduce the net asset or liability position below zero, and therefore any excess collateral is not reflected in the tables below.

The following table provides a detail of Securities purchased under agreements to resell as presented on the Consolidated Condensed Statements of Condition and collateral pledged by FHN as of September 30:

| | | | | Gross amounts not offset in the Statement of Condition | | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Gross amounts of recognized assets | Gross amounts offset in the Statement of Condition | Net amounts of assets presented in the Statement of Condition | Offsetting securities sold under agreements to repurchase | Securities collateral (not recognized on FHN s Statement of Condition) | Net amount |
| Securities purchased under agreements to resell: | | | | | | |
| **2014** | **$ 561,802** | **$** | **$ 561,802** | **$ (53,382)** | **$ (500,659)** | **$ 7,761** |
| 2013 | 576,355 | | 576,355 | (30,584) | (537,810) | 7,961 |

The following table provides a detail of Securities sold under agreements to repurchase as presented on the Consolidated Condensed Statements of Condition and collateral pledged by counterparties as of September 30:

| | | | | Gross amounts not offset in the Statement of Condition | | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Gross amounts of | Gross amounts offset | Net amounts of liabilities presented | Offsetting securities | Securities Collateral | Net amount |

| | recognized liabilities | in the Statement of Condition | in the Statement of Condition | purchased under agreements to resell | | |
|---|---|---|---|---|---|---|
| Securities sold under agreements to repurchase: | | | | | | |
| **2014** | **$ 479,384** | **$** | **$ 479,384** | **$ (53,382)** | **$ (425,986)** | **$ 16** |
| 2013 | 427,232 | | 427,232 | (30,584) | (396,639) | 9 |

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**Note 17 Fair Value of Assets & Liabilities**

FHN groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. This hierarchy requires FHN to maximize the use of observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. Each fair value measurement is placed into the proper level based on the lowest level of significant input. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect management s estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models, and similar techniques.

Transfers between fair value levels are recognized at the end of the fiscal quarter in which the associated change in inputs occurs.

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**Note 17 Fair Value of Assets & Liabilities (Continued)**

**Recurring Fair Value Measurements**

The following table presents the balance of assets and liabilities measured at fair value on a recurring basis as of September 30, 2014:

| | September 30, 2014 | | | |
|---|---|---|---|---|
| *(Dollars in thousands)* | Level 1 | Level 2 | Level 3 | Total |
| Trading securities capital markets: | | | | |
| U.S. treasuries | $ | $ 247,796 | $ | $ 247,796 |
| Government agency issued MBS | | 301,559 | | 301,559 |
| Government agency issued CMO | | 201,016 | | 201,016 |
| Other U.S. government agencies | | 108,874 | | 108,874 |
| States and municipalities | | 42,900 | | 42,900 |
| Corporate and other debt | | 379,768 | 5 | 379,773 |
| Equity, mutual funds, and other | | 49,986 | | 49,986 |
| Total trading securities capital markets | | 1,331,899 | 5 | 1,331,904 |
| Trading securities mortgage banking: | | | | |
| Principal only | | | 4,415 | 4,415 |
| Interest only | | | 232 | 232 |
| Subordinated bonds | | | 1,471 | 1,471 |
| Total trading securities mortgage banking | | | 6,118 | 6,118 |
| Loans held-for-sale | | | 31,443 | 31,443 |
| Securities available-for-sale: | | | | |
| U.S. treasuries | | 100 | | 100 |
| Government agency issued MBS | | 716,865 | | 716,865 |
| Government agency issued CMO | | 2,623,685 | | 2,623,685 |
| Other U.S. government agencies | | | 1,929 | 1,929 |
| States and municipalities | | 8,705 | 1,500 | 10,205 |
| Equity, mutual funds, and other | 26,080 | | | 26,080 |
| Total securities available-for-sale | 26,080 | 3,349,355 | 3,429 | 3,378,864 |
| Mortgage servicing rights | | | 2,880 | 2,880 |
| Other assets: | | | | |
| Deferred compensation assets | 24,901 | | | 24,901 |
| Derivatives, forwards and futures | 3,181 | | | 3,181 |
| Derivatives, interest rate contracts | | 134,561 | | 134,561 |

| | | | | |
|---|---|---|---|---|
| Total other assets | 28,082 | 134,561 | | 162,643 |
| Total assets | $ 54,162 | $ 4,815,815 | $ 43,875 | $ 4,913,852 |
| Trading liabilities capital markets: | | | | |
| U.S. treasuries | $ | $ 278,306 | $ | $ 278,306 |
| Other U.S. government agencies | | 4,964 | | 4,964 |
| States and municipalities | | 543 | | 543 |
| Corporate and other debt | | 248,421 | | 248,421 |
| Total trading liabilities capital markets | | 532,234 | | 532,234 |
| Other liabilities: | | | | |
| Derivatives, forwards and futures | 2,895 | | | 2,895 |
| Derivatives, interest rate contracts | | 112,907 | | 112,907 |
| Derivatives, other | | | 7,640 | 7,640 |
| Total other liabilities | 2,895 | 112,907 | 7,640 | 123,442 |
| Total liabilities | $ 2,895 | $ 645,141 | $ 7,640 | $ 655,676 |

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**Note 17 Fair Value of Assets & Liabilities (Continued)**

The following table presents the balance of assets and liabilities measured at fair value on a recurring basis as of September 30, 2013:

| | September 30, 2013 | | | |
|---|---|---|---|---|
| *(Dollars in thousands)* | Level 1 | Level 2 | Level 3 | Total |
| Trading securities capital markets: | | | | |
| U.S. treasuries | $ | $ 86,986 | $ | $ 86,986 |
| Government agency issued MBS | | 407,876 | | 407,876 |
| Government agency issued CMO | | 90,420 | | 90,420 |
| Other U.S. government agencies | | 149,867 | | 149,867 |
| States and municipalities | | 17,828 | | 17,828 |
| Trading Loans | | 145,505 | | 145,505 |
| Corporate and other debt | | 427,559 | 5 | 427,564 |
| Equity, mutual funds, and other | | 1,374 | | 1,374 |
| Total trading securities capital markets | | 1,327,415 | 5 | 1,327,420 |
| Trading securities mortgage banking: | | | | |
| Principal only | | | 5,096 | 5,096 |
| Interest only | | | 10,618 | 10,618 |
| Total trading securities mortgage banking | | | 15,714 | 15,714 |
| Loans held-for-sale | | | 229,760 | 229,760 |
| Securities available-for-sale: | | | | |
| U.S. treasuries | | 39,996 | | 39,996 |
| Government agency issued MBS | | 875,452 | | 875,452 |
| Government agency issued CMO | | 2,025,121 | | 2,025,121 |
| Other U.S. government agencies | | | 2,528 | 2,528 |
| States and municipalities | | 13,655 | 1,500 | 15,155 |
| Venture capital | | | 4,300 | 4,300 |
| Equity, mutual funds, and other | 20,267 | | | 20,267 |
| Total securities available-for-sale | 20,267 | 2,954,224 | 8,328 | 2,982,819 |
| Mortgage servicing rights | | | 116,686 | 116,686 |
| Other assets: | | | | |
| Deferred compensation assets | 23,193 | | | 23,193 |
| Derivatives, forwards and futures | 16,877 | | | 16,877 |
| Derivatives, interest rate contracts | | 198,239 | | 198,239 |
| Total other assets | 40,070 | 198,239 | | 238,309 |

| | | | | |
|---|---|---|---|---|
| Total assets | $ 60,337 | $ 4,479,878 | $ 370,493 | $ 4,910,708 |
| Trading liabilities capital markets: | | | | |
| U.S. treasuries | $ | $ 312,315 | $ | $ 312,315 |
| Government agency issued MBS | | 521 | | 521 |
| Government agency issued CMO | | 1,024 | | 1,024 |
| Other U.S. government agencies | | 30,253 | | 30,253 |
| States and municipalities | | 335 | | 335 |
| Corporate and other debt | | 237,953 | | 237,953 |
| Equity, mutual funds, and other | | 3,568 | | 3,568 |
| Total trading liabilities capital markets | | 585,969 | | 585,969 |
| Other short-term borrowings | | | 11,715 | 11,715 |
| Other liabilities: | | | | |
| Derivatives, forwards and futures | 9,770 | | | 9,770 |
| Derivatives, interest rate contracts | | 153,402 | | 153,402 |
| Derivatives, other | | 1 | 2,745 | 2,746 |
| Total other liabilities | 9,770 | 153,403 | 2,745 | 165,918 |
| Total liabilities | $ 9,770 | $ 739,372 | $ 14,460 | $ 763,602 |

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**Note 17 Fair Value of Assets & Liabilities (Continued)**

**Changes in Recurring Level 3 Fair Value Measurements**

The changes in Level 3 assets and liabilities measured at fair value for the three months ended September 30, 2014 and 2013, on a recurring basis are summarized as follows:

| | Three Months Ended September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | | Securities available-for-sale | | | |
| *(Dollars in thousands)* | Trading securities | Loans held-for-sale | Investment portfolio | Venture Capital | Mortgage servicing rights, net | Net derivative liabilities |
| Balance on July 1, 2014 | $ 6,421 | $ 232,487 | $ 3,561 | $ 2,300 | $ 3,197 | $ (4,725) |
| Total net gains/(losses) included in: | | | | | | |
| Net income | 191 | 41,757 | | (995) | 19 | (3,236) |
| Other comprehensive income /(loss) | | | (16) | | | |
| Purchases | | 522 | | | | |
| Issuances | | | | | | |
| Sales | | (236,975) | | (5) | (152) | |
| Settlements | (489) | (5,967) | (116) | (1,300) | (184) | 321 |
| Net transfers into/(out of) Level 3 | | (381)(b) | | | | |
| Balance on September 30, 2014 | $ 6,123 | $ 31,443 | $ 3,429 | $ | $ 2,880 | $ (7,640) |
| Net unrealized gains/(losses) included in net income | $ 191(a) | $ 1,828(a) | $ | $ | $ 17(a) | $ (3,236)(c) |

| | Three Months Ended September 30, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Securities available-for-sale | | | | |
| *(Dollars in thousands)* | Trading securities | Loans held-for-sale | Investment portfolio | Venture Capital | Mortgage servicing rights, net | Net derivative liabilities | Other short-term borrowings |
| Balance on July 1, 2013 | $ 15,877 | $ 235,080 | $ 4,354 | $ 4,300 | $ 113,853 | $ (2,195) | $ (12,349) |
| Total net gains/(losses) included in: | | | | | | | |
| Net income | 1,944 | (1,805) | | | 8,932 | (871) | 634 |
| Other comprehensive income /(loss) | | | (17) | | | | |
| Purchases | | 12,338 | | | | | |
| Issuances | | | | | | | |
| Sales | | | | | | | |
| Settlements | (2,102) | (11,390) | (309) | | (6,099) | 321 | |
| Net transfers into/(out of) Level 3 | | (4,463)(b) | | | | | |
| Balance on September 30, 2013 | $ 15,719 | $ 229,760 | $ 4,028 | $ 4,300 | $ 116,686 | $ (2,745) | $ (11,715) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Net unrealized gains/(losses) included in net income | $ (1,540)(a) | $ (1,805)(a) | $ | $ | $ 9,107(a) | $ (871)(c) | $ 634(a) |

(a) Primarily included in mortgage banking income on the Consolidated Condensed Statements of Income.
(b) Transfers out of recurring loans held-for-sale level 3 balances reflect movements out of loans held-for-sale and into real estate acquired by foreclosure (level 3 nonrecurring).
(c) Included in Other expense.

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**Note 17 Fair Value of Assets & Liabilities (Continued)**

**Changes in Recurring Level 3 Fair Value Measurements**

The changes in Level 3 assets and liabilities measured at fair value for the nine months ended September 30, 2014 and 2013, on a recurring basis are summarized as follows:

| | Nine Months Ended September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | | Securities available-for-sale | | | |
| *(Dollars in thousands)* | Trading securities | Loans held-for-sale | Investment portfolio | Venture Capital | Mortgage servicing rights, net | Net derivative liabilities |
| Balance on January 1, 2014 | $ 7,200 | $ 230,456 | $ 3,826 | $ 4,300 | $ 72,793 | $ (2,915) |
| Total net gains/(losses) included in: | | | | | | |
| Net income | 149 | 51,158 | | (2,995) | 1,265 | (5,678) |
| Other comprehensive income / (loss) | | | (48) | | | |
| Purchases | 1,559 | 5,104 | | | | |
| Issuances | | | | | | |
| Sales | (1,715) | (236,975) | | (5) | (70,071) | |
| Settlements | (1,070) | (14,767) | (349) | (1,300) | (1,107) | 953 |
| Net transfers into/(out of) Level 3 | | (3,533)(b) | | | | |
| Balance on September 30, 2014 | $ 6,123 | $ 31,443 | $ 3,429 | $ | $ 2,880 | $ (7,640) |
| Net unrealized gains/(losses) included in net income | $ 225(a) | $ 1,828(a) | $ | $ | $ 50(a) | $ (5,678)(c) |

| | Nine Months Ended September 30, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Securities available-for-sale | | | | |
| *(Dollars in thousands)* | Trading securities | Loans held-for-sale | Investment portfolio | Venture Capital | Mortgage servicing rights, net | Net derivative liabilities | Other short-term borrowings |
| Balance on January 1, 2013 | $ 17,992 | $ 221,094 | $ 5,253 | $ 4,300 | $ 114,311 | $ (2,175) | $ (11,156) |
| Total net gains/(losses) included in: | | | | | | | |
| Net income | 4,474 | (3,940) | | | 20,267 | (1,522) | (559) |
| Other comprehensive income /(loss) | | | (93) | | | | |
| Purchases | | 49,847 | | | | | |
| Issuances | | | | | | | |
| Sales | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Settlements | (6,747) | (25,990) | (1,132) | | (17,892) | 952 | |
| Net transfers into/(out of) Level 3 | | (11,251)(b) | | | | | |
| Balance on September 30, 2013 | $ 15,719 | $ 229,760 | $ 4,028 | $ 4,300 | $ 116,686 | $ (2,745) | $ (11,715) |
| Net unrealized gains/(losses) included in net income | $ 3,127(a) | $ (3,940)(a) | $ | $ | $ 20,424(a) | $ (1,523)(c) | $ (559)(a) |

(a) Primarily included in mortgage banking income on the Consolidated Condensed Statements of Income.

(b) Transfers out of recurring loans held-for-sale level 3 balances reflect movements out of loans held-for-sale and into real estate acquired by foreclosure (level 3 nonrecurring).

(c) Included in Other expense.

In third quarter 2014, FHN completed sales of first lien mortgage loans from its loans held-for-sale portfolio. The sale populations primarily represented loans that had been originated with the intent to sell to FNMA or FHLMC and consisted of repurchased loans as well as loans that remained after FHN s exit of mortgage origination activities in 2008. Smaller amounts of jumbo loans were also included in the sale, along with some loans insured under government programs. Almost all of these loans had been accounted for at elected fair value (a recurring measurement) with a small amount having been accounted for as LOCOM loans (a nonrecurring measurement). The contracted sale values for the loans reflected a substantial improvement in pricing for pre-2009 vintage first lien mortgages in comparison to FHN s historical methodologies used to estimate fair value, which incorporate significant Level 3 inputs within a discounted cash flow model. Accordingly, the loans being sold were marked to the revised estimate of fair value during the quarter and the pricing evidence from the sale transactions is considered a Level 2 input within the valuation process for the remaining non-governmental guaranteed portion of first lien mortgage loans held-for-sale.

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**Note 17 Fair Value of Assets & Liabilities (Continued)**

**Nonrecurring Fair Value Measurements**

From time to time, FHN may be required to measure certain other financial assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of LOCOM accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis which were still held on the balance sheet at September 30, 2014 and 2013, respectively, the following tables provide the level of valuation assumptions used to determine each adjustment, the related carrying value, and the fair value adjustments recorded during the respective periods.

| | Carrying value at September 30, 2014 | | | | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2014 |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Level 1 | Level 2 | Level 3 | Total | Net gains/(losses) | Net gains/(losses) |
| Loans held-for-sale SBAs | $ | $ 7,552 | $ | $ 7,552 | $ (4) | $ 39 |
| Loans held-for-sale first mortgages | | | 981 | 981 | (351) | (361) |
| Loans, net of unearned income (a) | | | 46,634 | 46,634 | 1,259 | 2,504 |
| Real estate acquired by foreclosure (b) | | | 35,261 | 35,261 | (707) | (2,098) |
| Other assets (c) | | | 65,393 | 65,393 | (698) | (2,779) |
| | | | | | $ (501) | $ (2,695) |

| | Carrying value at September 30, 2013 | | | | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Level 1 | Level 2 | Level 3 | Total | Net gains/(losses) | Net gains/(losses) |
| Loans held-for-sale first mortgages | $ | $ | $ 9,632 | $ 9,632 | $ 364 | $ 304 |
| Loans, net of unearned income (a) | | | 82,254 | 82,254 | (1,177) | (3,154) |
| Real estate acquired by foreclosure (b) | | | 50,030 | 50,030 | (327) | (3,278) |
| Other assets (c) | | | 69,115 | 69,115 | (1,153) | (4,199) |
| | | | | | $ (2,293) | $ (10,327) |

Certain previously reported amount have been reclassified to agree with current presentation.

(a) Represents carrying value of loans for which adjustments are required to be based on the appraised value of the collateral. Write-downs on these loans are recognized as part of provision.

(b) Represents the fair value and related losses of foreclosed properties that were measured subsequent to their initial classification as foreclosed assets. Balance excludes foreclosed real estate related to government insured mortgages.

(c) Represents tax credit investments.

In first quarter 2013, FHN exercised clean-up calls on first lien mortgage proprietary securitization trusts. In accordance with accounting requirements, FHN initially recognized the associated loans at fair value. Fair value was primarily determined through reference to observable inputs, including current market prices for similar loans. Since these loans were from the 2003 vintage, adjustments were made for the higher yields associated with the loans in comparison to more currently originated loans being sold. This resulted in recognition of an immaterial premium for these transactions.

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**Note 17 Fair Value of Assets & Liabilities (Continued)**

**Level 3 Measurements**

The following tables provide information regarding the unobservable inputs utilized in determining the fair value of level 3 recurring and non-recurring measurements as of September 30, 2014 and 2013:

*(Dollars in Thousands)*

| Level 3 Class | Fair Value at September 30, 2014 | Valuation Techniques | Unobservable Input | Values Utilized |
|---|---|---|---|---|
| Trading securities mortgage (a) | $ 6,118 | Discounted cash flow | Prepayment speeds | 42% - 46% |
| | | | Discount rate | 42% - 69% |
| Loans held-for-sale residential real estate | 32,424 | Discounted cash flow | Prepayment speeds - First mortgage | 6% - 10% |
| | | | Prepayment speeds - Heloc | 5% - 15% |
| | | | Credit spreads | 2% - 4% |
| | | | Delinquency adjustment factor | 15% - 25% added to credit spread |
| | | | Loss severity trends - First mortgage | 50% - 60% of UPB |
| | | | Loss severity trends - Heloc | 50% - 100% of UPB |
| | | | Draw rate - Heloc | 5% - 12% |
| Mortgage servicing rights (a) | 2,880 | Discounted cash flow | Prepayment speeds | 15.2 CPR |
| | | | Discount rate | 9.8% |
| | | | Cost to service | $141.40/Loan |
| | | | Earnings on escrow | 1.385% |
| Derivative liabilities, other | 7,640 | Discounted cash flow | Visa covered litigation resolution amount | $4.9 billion - $5.7 billion |
| | | | Probability of resolution scenarios | 10% - 30% |
| | | | Time until resolution | 12 - 48 months |
| Loans, net of unearned income (b) | 46,634 | Appraisals from comparable properties | Marketability adjustments for specific properties | 0% - 10% of appraisal |
| | | Other collateral valuations | Borrowing base certificates adjustment | 20% - 50% of gross value |

| | | | | |
|---|---|---|---|---|
| | | | Financial Statements/Auction values adjustment | 0% - 25% of reported value |
| Real estate acquired by foreclosure (c) | 35,261 | Appraisals from comparable properties | Adjustment for value changes since appraisal | 0% - 10% of appraisal |
| Other assets (d) | 65,393 | Discounted cash flow | Adjustments to current sales yields for specific properties | 0% - 15% adjustment to yield |
| | | Appraisals from comparable properties | Marketability adjustments for specific properties | 0% - 25% of appraisal |

(a) The unobservable inputs for principal-only and interest-only trading securities, MSR and subordinated bonds are discussed in the Mortgage servicing rights and other retained interests paragraph.

(b) Represents carrying value of loans for which adjustments are required to be based on the appraised value of the collateral. Write-downs on these loans are recognized as part of provision.

(c) Represents the fair value of foreclosed properties that were measured subsequent to their initial classification as foreclosed assets. Balance excludes foreclosed real estate related to government insured mortgages.

(d) Represents tax credit investments.

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**Note 17 Fair Value of Assets & Liabilities (Continued)**

*(Dollars in Thousands)*

| Level 3 Class | Fair Value at September 30, 2013 | Valuation Techniques | Unobservable Input | Values Utilized |
|---|---|---|---|---|
| Trading securities mortgage | $ 15,714 | Discounted cash flow | Prepayment speeds | 42% - 46% |
| | | | Discount rate | 48% - 170% |
| Loans held-for-sale residential real estate | 239,392 | Discounted cash flow | Prepayment speeds | 6% - 10% |
| | | | Credit spreads | 2% - 4% |
| | | | Delinquency adjustment factor | 15% - 25% added to credit spread |
| | | | Loss severity trends | 50% - 60% of UPB |
| Venture capital investments | 4,300 | Industry comparables | Adjustment for minority interest and small business status | 40% - 50% discount |
| | | Discounted cash flow | Discount rate | 25% - 30% |
| | | | Earnings capitalization rate | 20% - 25% |
| Mortgage servicing rights | 116,686 | Discounted cash flow | Prepayment speeds | 18.7 CPR |
| | | | Discount rate | 8.4% |
| | | | Cost to service | $118.70/Loan |
| | | | Earnings on escrow | 1.385% |
| Other short-term borrowings | 11,715 | Discounted cash flow | (a) | (a) |
| Derivative liabilities, other | 2,745 | Discounted cash flow | Visa covered litigation resolution amount | $4.4 billion - $5.0 billion |
| | | | Probability of resolution scenarios | 10% - 50% |
| | | | Time until resolution | 6 - 30 months |
| Loans, net of unearned income (b) | 82,254 | Appraisals from comparable properties | Marketability adjustments for specific properties | 0% - 10% of appraisal |
| | | Other collateral valuations | Borrowing base certificates adjustment | 20% - 50% of gross value |
| | | | Financial Statements/Auction Values adjustment | 0% - 25% of reported value |

| | | | | |
|---|---|---|---|---|
| Real estate acquired by foreclosure (c) | 50,030 | Appraisals from comparable properties | Adjustment for value changes since appraisal | 0% - 10% of appraisal |
| Other assets (d) | 69,115 | Discounted cash flow | Adjustments to current sales yields for specific properties | 0% - 15% adjustment to yield |
| | | Appraisals from comparable properties | Marketability adjustments for specific properties | 0% - 25% of appraisal |

(a) The inputs and associated ranges for Other short-term borrowings mirror those of the related MSR.
(b) Represents carrying value of loans for which adjustments are required to be based on the appraised value of the collateral. Write-downs on these loans are recognized as part of provision.
(c) Represents the fair value of foreclosed properties that were measured subsequent to their initial classification as foreclosed assets. Balance excludes foreclosed real estate related to government insured mortgages.
(d) Represents tax credit investments.

***Mortgage servicing rights and other retained interests.*** Prepayment rates and credit spreads (part of the discount rate) are significant unobservable inputs used in the fair value measurement of FHN s MSR and mortgage trading securities which include principal only strips, excess interest IO, and subordinated bonds. Cost to service and earnings on escrow are additional unobservable inputs included in the valuation of MSR. Increases in prepayment rates, credit spreads and costs to service in isolation would result in significantly lower fair value measurements for the associated assets. Conversely, decreases in prepayment rates, credit spreads and costs to service in isolation would result in significantly higher fair value measurements for the associated assets. An increase/(decrease) in earnings on escrow in isolation would be accompanied by an increase/(decrease) in the value of the related MSR. Generally, when market interest rates decline and other factors favorable to prepayments occur, there is a corresponding increase in prepayment rates as customers are expected to refinance

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**Note 17 Fair Value of Assets & Liabilities (Continued)**

existing mortgages under more favorable interest rate terms. Generally, changes in discount rates directionally mirror the changes in market interest rates. In third quarter 2013, FHN agreed to sell substantially all its remaining legacy mortgage servicing. Sales commenced in fourth quarter 2013 and were substantially completed in first quarter 2014. FHN used the price in the definitive agreement, as adjusted for the portion of pricing that was not specific to the MSR and excess interest, as a third-party pricing source in the valuation of the remaining servicing assets as of September 30, 2014.

Prior to the contracted servicing sale, the MSR Hedging Working Group reviewed the overall assessment of the estimated fair value of MSR and excess interests weekly and was responsible for approving the critical assumptions used by management to determine the estimated fair value of FHN s retained interests. In addition, this working group reviewed the source of significant changes to the carrying values each quarter and was responsible for hedges and approving hedging strategies during periods when the MSR was hedged. Hedges were terminated upon execution of the definitive agreement to sell servicing. Subsequent to the contracted servicing sale, FHN s Corporate Accounting Department monitors sale activity and changes in the fair value of MSR and excess interest monthly.

Prior to the contracted servicing sale, FHN also engaged in a process referred to as price discovery on a quarterly basis to assess the reasonableness of the estimated fair value of retained interests. Price discovery was conducted through a process of obtaining the following information: (1) quarterly informal (and an annual formal) valuation of the servicing portfolio by prominent independent mortgage-servicing brokers and (2) a collection of surveys and benchmarking data made available by independent third parties that include peer participants in the mortgage banking business. Although there was no single source of market information that could be relied upon to assess the fair value of MSR or excess interests, FHN reviewed all information obtained during price discovery to determine whether the estimated fair value of MSR was reasonable when compared to market information.

***Loans held-for-sale.*** Prepayment rates, credit spreads, and delinquency adjustment factors are significant unobservable inputs used in the fair value measurement of FHN s residential real estate loans held-for-sale. Loss severity trends are also assessed to evaluate the reasonableness of fair value estimates resulting from discounted cash flows methodologies as well as to estimate fair value for newly repurchased loans and loans that are near foreclosure. Significant increases (decreases) in any of these inputs in isolation would result in significantly lower (higher) fair value measurements. Draw rates are an additional significant unobservable input for HELOCs. Increases (decreases) in the draw rate estimates for HELOCs would increase (decrease) their fair value. All observable and unobservable inputs are re-assessed monthly. Fair value measurements are reviewed at least monthly by FHN s Corporate Accounting Department.

***Venture capital investments.*** The unobservable inputs used in the estimation of fair value for Venture capital investments were adjustments for minority interest and small business status when compared to industry comparables, reduction of cash flow estimates due to industry uncertainty and the discount rate and earnings capitalization rate for a discounted cash flow analysis. For both valuation techniques, the inputs were intended to reflect the nature of the small business and the status of equity tranches held by FHN in relation to the overall valuation. The valuation of venture capital investments was reviewed at least quarterly by FHN s Equity Investment Review Committee. Changes in valuation were discussed with respect to the appropriateness of the adjustments in relation to the associated triggering events.

***Derivative liabilities.*** The determination of fair value for FHN s derivative liabilities associated with its prior sales of Visa Class B shares include estimation of both the resolution amount for Visa s Covered Litigation matters as well as the length of time until the resolution occurs. Significant increases (decreases) in either of these inputs in isolation would result in significantly higher (lower) fair value measurements for the derivative liabilities. Additionally, FHN performs a probability weighted multiple resolution scenario to calculate the estimated fair value of these derivative liabilities. Assignment of higher (lower) probabilities to the larger potential resolution scenarios would result in an increase (decrease) in the estimated fair value of the derivative liabilities. The valuation inputs and process are discussed with senior and executive management when significant events affecting the estimate of fair value occur. Inputs are compared to information obtained from the public issuances and filings of Visa, Inc. as well as public information released by other participants in the applicable litigation matters.

***Loans, net of unearned income and Real estate acquired by foreclosure.*** Collateral-dependent loans and Real estate acquired by foreclosure are primarily valued using appraisals based on sales of comparable properties in the same or similar markets. Multiple appraisal firms are utilized to ensure that estimated values are consistent between firms. This process occurs within FHN s Credit Risk Management and Loan Servicing functions (primarily consumer) and the Credit Risk Management Committee reviews valuation methodologies and loss information for reasonableness. Back testing is performed during the year through comparison to ultimate disposition values and is reviewed quarterly within the Credit Risk Management function. Other collateral (receivables, inventory, equipment, etc.) is valued through borrowing base certificates, financial statements and/or auction valuations. These valuations are discounted based on the quality of reporting, knowledge of the marketability/collectability of the collateral and historical disposition rates.

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## Note 17 Fair Value of Assets & Liabilities (Continued)

***Other assets tax credit investments.*** The estimated fair value of tax credit investments is generally determined in relation to the yield (i.e., future tax credits to be received) an acquirer of these investments would expect in relation to the yields experienced on current new issue and/or secondary market transactions. Thus, as tax credits are recognized, the future yield to a market participant is reduced, resulting in consistent impairment of the individual investments. Individual investments are reviewed for impairment quarterly, which may include the consideration of additional marketability discounts related to specific investments. Unusual valuation adjustments, and the associated triggering events, are discussed with senior and executive management, when appropriate. A portfolio review is conducted annually, with the assistance of a third party, to assess the reasonableness of current valuations.

### Fair Value Option

FHN elected the fair value option on a prospective basis for almost all types of mortgage loans originated for sale purposes under the Financial Instruments Topic ( ASC 825 ). FHN determined that the election reduced certain timing differences and better matched changes in the value of such loans with changes in the value of derivatives used as economic hedges for these assets at the time of election. After the 2008 divestiture of certain mortgage banking operations and the significant decline of mortgage loans originated for sale, FHN discontinued hedging the mortgage warehouse.

Repurchased loans are recognized within loans held-for-sale at fair value at the time of repurchase, which includes consideration of the credit status of the loans and the estimated liquidation value. FHN has elected to continue recognition of these loans at fair value in periods subsequent to reacquisition. Due to the credit-distressed nature of the vast majority of repurchased loans and the related loss severities experienced upon repurchase, FHN believes that the fair value election provides a more timely recognition of changes in value for these loans that occur subsequent to repurchase. Absent the fair value election, these loans would be subject to valuation at the LOCOM value, which would prevent subsequent values from exceeding the initial fair value, determined at the time of repurchase but would require recognition of subsequent declines in value. Thus, the fair value election provides for a more timely recognition of any potential future recoveries in asset values while not affecting the requirement to recognize subsequent declines in value.

Prior to 2010, FHN transferred certain servicing assets in transactions that did not qualify for sale treatment due to certain recourse provisions. In fourth quarter 2013, these recourse provisions expired and the transaction was recognized as a sale. Prior to fourth quarter 2013, the associated proceeds were recognized within other short-term borrowings in the Consolidated Statements of Condition. Since the servicing assets were recognized at fair value and changes in the fair value of the related financing liabilities mirrored the change in fair value of the associated servicing assets, management elected to account for the financing liabilities at fair value. Since the servicing assets had already been delivered to the buyer, the fair value of the financing liabilities associated with the transaction did not reflect any instrument-specific credit risk.

The following tables reflect the differences between the fair value carrying amount of residential real estate loans held-for-sale measured at fair value in accordance with management s election and the aggregate unpaid principal amount FHN is contractually entitled to receive at maturity.

| | September 30, 2014 | | |
|---|---|---|---|
| *(Dollars in thousands)* | Fair value carrying amount | Aggregate unpaid principal | Fair value carrying amount less aggregate unpaid principal |
| Residential real estate loans held-for-sale reported at fair value: | | | |
| Total loans | $ 31,443 | $ 49,145 | $ (17,702) |
| Nonaccrual loans | 7,742 | 14,893 | (7,151) |
| Loans 90 days or more past due and still accruing | 2,685 | 4,990 | (2,305) |

| | September 30, 2013 | | |
|---|---|---|---|
| *(Dollars in thousands)* | Fair value carrying amount | Aggregate unpaid principal | Fair value carrying amount less aggregate unpaid principal |
| Residential real estate loans held-for-sale reported at fair value: | | | |
| Total loans | $ 229,760 | $ 379,123 | $ (149,363) |
| Nonaccrual loans | 69,116 | 147,116 | (78,000) |
| Loans 90 days or more past due and still accruing | 9,046 | 19,402 | (10,356) |
| Trading loans reported at fair value: | | | |
| Total loans | 145,505 | 142,311 | 3,194 |

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**Note 17 Fair Value of Assets & Liabilities (Continued)**

Assets and liabilities accounted for under the fair value election are initially measured at fair value with subsequent changes in fair value recognized in earnings. Such changes in the fair value of assets and liabilities for which FHN elected the fair value option are included in current period earnings with classification in the income statement line item reflected in the following table:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **2014** | 2013 | **2014** | 2013 |
| Changes in fair value included in net income: | | | | |
| Mortgage banking noninterest income | | | | |
| Loans held-for-sale | **$ 41,757** | $ (1,805) | **$ 51,158** | $ (3,940) |
| Other short-term borrowings | | 634 | | (559) |
| Changes in fair value included in net income: | | | | |
| Capital market noninterest income | | | | |
| Trading loans | | 1,867 | | 1,867 |

For the three months ended September 30, 2014 and 2013, the amounts for residential real estate loans held-for-sale include a gain of $.6 million and a loss of $1.4 million, respectively, in pretax earnings that are attributable to changes in instrument-specific credit risk. For the nine months ended September 30, 2014 and 2013, the amounts for loans held-for-sale include a gain of $3.2 million and an immaterial gain, respectively, in pretax earnings that are attributable to changes in instrument-specific credit risk. The portion of the fair value adjustments related to credit risk was determined based on both a quality adjustment for delinquencies and the full credit spread on the non-conforming loans. Interest income on residential real estate loans held-for-sale measured at fair value is calculated based on the note rate of the loan and is recorded in the interest income section of the Consolidated Condensed Statements of Income as interest on loans held-for-sale.

**Determination of Fair Value**

In accordance with ASC 820-10-35, fair values are based on 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. The following describes the assumptions and methodologies used to estimate the fair value of financial instruments and MSR recorded at fair value in the Consolidated Condensed Statements of Condition and for estimating the fair value of financial instruments for which fair value is disclosed under ASC 825-10-50.

***Short-term financial assets.*** Federal funds sold, securities purchased under agreements to resell, and interest bearing deposits with other financial institutions and the Federal Reserve are carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

***Trading securities and trading liabilities.*** Trading securities and trading liabilities are recognized at fair value through current earnings. Trading inventory held for broker-dealer operations is included in trading securities and trading liabilities. Broker-dealer long positions are valued at bid price in the bid-ask spread. Short positions are valued at the ask price. Inventory positions are valued using observable inputs including current market transactions, LIBOR and U.S. treasury curves, credit spreads, and consensus prepayment speeds. Trading loans are valued using observable inputs including current market transactions, swap rates, mortgage rates, and consensus prepayment speeds.

Trading securities also include retained interests in prior securitizations that qualify as financial assets, which primarily include interest-only strips, principal-only strips and subordinated bonds. In third quarter 2013, FHN agreed to sell substantially all of its remaining legacy mortgage servicing, including excess interest. Since that time FHN has used the price in the definitive agreement, as adjusted for the portion of pricing that was not specific to the excess interest, as a third-party pricing source in the valuation of the excess interest. FHN uses inputs including yield curves, credit spreads, and prepayment speeds to determine the fair value of principal-only strips. Subordinated bonds are bonds with junior priority and are valued using an internal model which includes contractual terms, frequency and severity of loss (credit spreads), prepayment speeds of the underlying collateral, and the yield that a market participant would require.

Prior to the third quarter 2013 sale, the fair value of excess interest was determined using prices from closely comparable assets such as MSR that were tested against prices determined using a valuation model that calculated the present value of estimated future cash flows. Inputs utilized in valuing excess interest were consistent with those used to value the related MSR. The fair value of excess interest typically changes based on changes in the discount rate and differences between modeled prepayment speeds and credit losses and actual experience. FHN used assumptions in the model that it believes are comparable to those used by brokers and other service providers. FHN also periodically compared its estimates of fair value and assumptions with brokers, service providers, recent market activity, and against its own experience.

**Note 17 Fair Value of Assets & Liabilities (Continued)**

***Securities available-for-sale.*** Securities available-for-sale includes the investment portfolio accounted for as available-for-sale under ASC 320-10-25, federal bank stock holdings, short-term investments in mutual funds, and prior to September 30, 2014, venture capital investments. Valuations of available-for-sale securities are performed using observable inputs obtained from market transactions in similar securities. Typical inputs include LIBOR and U.S. treasury curves, consensus prepayment estimates, and credit spreads. When available, broker quotes are used to support these valuations. Certain government agency debt obligations with limited trading activity are valued using a discounted cash flow model that incorporates a combination of observable and unobservable inputs. Primary observable inputs include contractual cash flows and the treasury curve. Significant unobservable inputs include estimated trading spreads and estimated prepayment speeds.

Investments in the stock of the Federal Reserve Bank and Federal Home Loan Banks are recognized at historical cost in the Consolidated Condensed Statements of Condition which is considered to approximate fair value. Short-term investments in mutual funds are measured at the funds reported closing net asset values. Investments in equity securities are valued using quoted market prices. Prior to September 30, 2014, venture capital investments were typically measured using significant internally generated inputs including adjustments to industry comparables and discounted cash flows analysis.

***Securities held-to-maturity.*** Securities held-to-maturity reflects debt securities for which management has the positive intent and ability to hold to maturity. To the extent possible, valuations of held-to-maturity securities are performed using observable inputs obtained from market transactions in similar securities. Typical inputs include LIBOR and U.S. treasury curves and credit spreads. Debt securities with limited trading activity are valued using a discounted cash flow model that incorporates a combination of observable and unobservable inputs. Primary observable inputs include contractual cash flows, the treasury curve and credit spreads from similar instruments. Significant unobservable inputs include estimated credit spreads for individual issuers and instruments as well as prepayment speeds, as applicable.

***Loans held-for-sale.*** For applicable loans current transaction prices and /or bid values on similar assets are used in valuing residential real estate loans held-for-sale. Uncommitted bids may be adjusted based on other available market information. For all other loans FHN determines the fair value of residential real estate loans held-for-sale using a discounted cash flow model which incorporates both observable and unobservable inputs. Typical inputs include contractual cash flow requirements, current mortgage rates for similar products, estimated prepayment rates, credit spreads and delinquency penalty adjustments. Adjustments for delinquency and other differences in loan characteristics are typically reflected in the model s discount rates. Loss severity trends and the value of underlying collateral are also considered in assessing the appropriate fair value for severely delinquent loans and loans in foreclosure. The valuation of HELOCs also incorporates estimates of loan draw rates as well as estimated cancellation rates for loans expected to become delinquent.

Loans held-for-sale also includes loans made by the Small Business Administration ( SBA ), which are accounted for at LOCOM. The fair value of SBA loans is determined using an expected cash flow model that utilizes observable inputs such as the spread between LIBOR and prime rates, consensus prepayment speeds, and the treasury curve. The fair value of other non-residential real estate loans held-for-sale is approximated by their carrying values based on current transaction values.

***Loans, net of unearned income.*** Loans, net of unearned income are recognized at the amount of funds advanced, less charge-offs and an estimation of credit risk represented by the allowance for loan losses. The fair value estimates for disclosure purposes differentiate loans based on their financial characteristics, such as product classification, vintage, loan category, pricing features, and remaining maturity.

The fair value of floating rate loans is estimated through comparison to recent market activity in loans of similar product types, with adjustments made for differences in loan characteristics. In situations where market pricing inputs are not available, fair value is considered to approximate book value due to the monthly repricing for commercial and consumer loans, with the exception of floating rate 1-4 family residential mortgage loans which reprice annually and will lag movements in market rates. The fair value for floating rate 1-4 family mortgage loans is calculated by discounting future cash flows to their present value. Future cash flows are discounted to their present value by using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same time period.

Prepayment assumptions based on historical prepayment speeds and industry speeds for similar loans have been applied to the floating rate 1-4 family residential mortgage portfolio.

The fair value of fixed rate loans is estimated through comparison to recent market activity in loans of similar product types, with adjustments made for differences in loan characteristics. In situations where market pricing inputs are not available, fair value is estimated by discounting future cash flows to their present value. Future cash flows are discounted to their present value by using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same time period. Prepayment assumptions based on historical prepayment speeds and industry speeds for similar loans have been applied to the fixed rate mortgage and installment loan portfolios.

**Note 17 Fair Value of Assets & Liabilities (Continued)**

For all loan portfolio classes, adjustments are made to reflect liquidity or illiquidity of the market. Such adjustments reflect discounts that FHN believes are consistent with what a market participant would consider in determining fair value given current market conditions.

Individually impaired loans are measured using either a discounted cash flow methodology or the estimated fair value of the underlying collateral less costs to sell, if the loan is considered collateral-dependent. In accordance with accounting standards, the discounted cash flow analysis utilizes the loan s effective interest rate for discounting expected cash flow amounts. Thus, this analysis is not considered a fair value measurement in accordance with ASC 820. However, the results of this methodology are considered to approximate fair value for the applicable loans. Expected cash flows are derived from internally-developed inputs primarily reflecting expected default rates on contractual cash flows. For loans measured using the estimated fair value of collateral less costs to sell, fair value is estimated using appraisals of the collateral. Collateral values are monitored and additional write-downs are recognized if it is determined that the estimated collateral values have declined further. Estimated costs to sell are based on current amounts of disposal costs for similar assets. Carrying value is considered to reflect fair value for these loans.

***Mortgage servicing rights.*** FHN recognizes all classes of MSR at fair value. In third quarter 2013, FHN agreed to sell substantially all of its remaining legacy mortgage servicing. Since that time FHN has used the price in the definitive agreement, as adjusted for the portion of pricing that was not specific to the MSR, as a third-party pricing source in the valuation of the MSR held at September 30, 2014.

Since sales of MSR tend to occur in private transactions and the precise terms and conditions of the sales are typically not readily available, there is a limited market to refer to in determining the fair value of MSR. As such, prior to the third quarter 2013 sale agreement, FHN primarily relied on a discounted cash flow model to estimate the fair value of its MSR. This model calculated estimated fair value of the MSR using predominant risk characteristics of MSR such as interest rates, type of product (fixed vs. variable), age (new, seasoned, or moderate), agency type and other factors. FHN used assumptions in the model that it believed were comparable to those used by brokers and other service providers. FHN also periodically compared its estimates of fair value and assumptions with brokers, service providers, recent market activity, and against its own experience.

***Derivative assets and liabilities***. The fair value for forwards and futures contracts is based on current transactions involving identical securities. Futures contracts are exchange-traded and thus have no credit risk factor assigned as the risk of non-performance is limited to the clearinghouse used.

Valuations of other derivatives (primarily interest rate related swaps, swaptions, caps, and collars) are based on inputs observed in active markets for similar instruments. Typical inputs include the LIBOR curve, Overnight Indexed Swap ( OIS ) curve, option volatility, and option skew. In measuring the fair value of these derivative assets and liabilities, FHN has elected to consider credit risk based on the net exposure to individual counterparties. Credit risk is mitigated for these instruments through the use of mutual margining and master netting agreements as well as collateral posting requirements. Any remaining credit risk related to interest rate derivatives is considered in determining fair value through evaluation of additional factors such as customer loan grades and debt ratings. Foreign currency related derivatives also utilize observable exchange rates in the determination of fair value.

In conjunction with the sales of portions of its Visa Class B shares, FHN and the purchasers entered into derivative transactions whereby FHN will make, or receive, cash payments whenever the conversion ratio of the Visa Class B shares into Visa Class A shares is adjusted. The fair value of these derivatives has been determined using a discounted cash flow methodology for estimated future cash flows determined through use of probability weighted scenarios for multiple estimates of Visa s aggregate exposure to covered litigation matters, which include consideration of amounts funded by Visa into its escrow account for the covered litigation matters. Since this estimation process required application of judgment in developing significant unobservable inputs used to determine the possible outcomes and the probability weighting assigned to each scenario, these derivatives have been classified within Level 3 in fair value measurements disclosures.

***Real estate acquired by foreclosure.*** Real estate acquired by foreclosure primarily consists of properties that have been acquired in satisfaction of debt. These properties are carried at the lower of the outstanding loan amount or estimated fair value less estimated costs to sell the real estate. Estimated fair value is determined using appraised values with subsequent adjustments for deterioration in values that are not reflected in the most recent appraisal. Real estate acquired by foreclosure also includes properties acquired in compliance with HUD servicing guidelines which are carried at the estimated amount of the underlying government insurance or guarantee.

***Nonearning assets.*** For disclosure purposes, nonearning assets include cash and due from banks, accrued interest receivable, and capital markets receivables. Due to the short-term nature of cash and due from banks, accrued interest receivable, and capital markets receivables, the fair value is approximated by the book value.

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**Note 17 Fair Value of Assets & Liabilities (Continued)**

***Other assets.*** For disclosure purposes, other assets consist of tax credit investments and deferred compensation assets that are considered financial assets. Tax credit investments are written down to estimated fair value quarterly based on the estimated value of the associated tax credits. Deferred compensation assets are recognized at fair value, which is based on quoted prices in active markets.

***Defined maturity deposits.*** The fair value of these deposits is estimated by discounting future cash flows to their present value. Future cash flows are discounted by using the current market rates of similar instruments applicable to the remaining maturity. For disclosure purposes, defined maturity deposits include all certificates of deposit and other time deposits.

***Undefined maturity deposits.*** In accordance with ASC 825, the fair value of these deposits is approximated by the book value. For the purpose of this disclosure, undefined maturity deposits include demand deposits, checking interest accounts, savings accounts, and money market accounts.

***Short-term financial liabilities.*** The fair value of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings are approximated by the book value. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization. Prior to fourth quarter 2013, Other short-term borrowings included a liability associated with transfers of MSR that did not qualify for sale accounting. This liability was accounted for at elected fair value, which was measured consistent with the related MSR, as previously described.

***Term borrowings.*** The fair value of term borrowings is based on quoted market prices or dealer quotes for the identical liability when traded as an asset. When pricing information for the identical liability is not available, relevant prices for similar debt instruments are used with adjustments being made to the prices obtained for differences in characteristics of the debt instruments. If no relevant pricing information is available, the fair value is approximated by the present value of the contractual cash flows discounted by the investor s yield which considers FHN s and FTBNA s debt ratings.

***Other noninterest-bearing liabilities.*** For disclosure purposes, other noninterest-bearing liabilities include accrued interest payable and capital markets payables. Due to the short-term nature of these liabilities, the book value is considered to approximate fair value.

***Loan commitments.*** Fair values of these commitments are based on fees charged to enter into similar agreements taking into account the remaining terms of the agreements and the counterparties credit standing.

***Other commitments.*** Fair values of these commitments are based on fees charged to enter into similar agreements.

The following fair value estimates are determined as of a specific point in time utilizing various assumptions and estimates. The use of assumptions and various valuation techniques, as well as the absence of secondary markets for certain financial instruments, will likely reduce the comparability of fair value disclosures between financial institutions. Due to market illiquidity, the fair values for loans, net of unearned income, loans held-for-sale, and term borrowings as of September 30, 2014 and 2013, involve the use of significant internally-developed pricing assumptions for certain components of these line items. These assumptions are considered to reflect inputs that market participants would use in transactions involving these instruments as of the measurement date. Assets and liabilities that are not financial instruments (including MSR) have not been included in the following table such as the value of long-term relationships with deposit and trust customers, premises and equipment, goodwill and other intangibles, deferred taxes, and certain other assets and other liabilities. Accordingly, the total of the fair value amounts does not represent, and should not be construed to represent, the underlying value of the Company.

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**Note 17 Fair Value of Assets & Liabilities (Continued)**

The following tables summarize the book value and estimated fair value of financial instruments recorded in the Consolidated Condensed Statements of Condition as well as unfunded commitments as of September 30, 2014 and 2013.

| | September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Book | Fair Value | | | |
| *(Dollars in thousands)* | Value | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | |
| Loans, net of unearned income and allowance for loan losses | | | | | |
| Commercial: | | | | | |
| Commercial, financial and industrial | $ 8,407,459 | $ | $ | $ 8,348,656 | $ 8,348,656 |
| Commercial real estate | 1,262,944 | | | 1,243,925 | 1,243,925 |
| Retail: | | | | | |
| Consumer real estate | 5,012,593 | | | 4,875,939 | 4,875,939 |
| Permanent mortgage | 552,568 | | | 492,930 | 492,930 |
| Credit card & other | 337,812 | | | 339,667 | 339,667 |
| Total loans, net of unearned income and allowance for loan losses | 15,573,376 | | | 15,301,117 | 15,301,117 |
| Short-term financial assets | | | | | |
| Interest-bearing cash | 275,485 | 275,485 | | | 275,485 |
| Federal funds sold | 55,242 | | 55,242 | | 55,242 |
| Securities purchased under agreements to resell | 561,802 | | 561,802 | | 561,802 |
| Total short-term financial assets | 892,529 | 275,485 | 617,044 | | 892,529 |
| Trading securities (a) | 1,338,022 | | 1,331,899 | 6,123 | 1,338,022 |
| Loans held-for-sale (a) | 151,915 | | 7,552 | 144,363 | 151,915 |
| Securities available-for-sale (a) (b) | 3,534,671 | 26,080 | 3,349,355 | 159,236 | 3,534,671 |
| Securities held-to-maturity | 4,286 | | | 5,380 | 5,380 |
| Derivative assets (a) | 137,742 | 3,181 | 134,561 | | 137,742 |
| Other assets | | | | | |
| Tax credit investments | 65,393 | | | 65,393 | 65,393 |
| Deferred compensation assets | 24,901 | 24,901 | | | 24,901 |
| Total other assets | 90,294 | 24,901 | | 65,393 | 90,294 |
| Nonearning assets | | | | | |
| Cash & due from banks | 292,687 | 292,687 | | | 292,687 |
| Capital markets receivables | 197,507 | | 197,507 | | 197,507 |
| Accrued interest receivable | 71,755 | | 71,755 | | 71,755 |

| | | | | | |
|---|---|---|---|---|---|
| Total nonearning assets | 561,949 | 292,687 | 269,262 | | 561,949 |
| Total assets | $ 22,284,784 | $ 622,334 | $ 5,709,673 | $ 15,681,612 | $ 22,013,619 |
| Liabilities: | | | | | |
| Deposits: | | | | | |
| Defined maturity | $ 1,214,637 | $ | $ 1,220,109 | $ | $ 1,220,109 |
| Undefined maturity | 14,930,134 | | 14,930,134 | | 14,930,134 |
| Total deposits | 16,144,771 | | 16,150,243 | | 16,150,243 |
| Trading liabilities (a) | 532,234 | | 532,234 | | 532,234 |
| Short-term financial liabilities | | | | | |
| Federal funds purchased | 928,159 | | 928,159 | | 928,159 |
| Securities sold under agreements to repurchase | 479,384 | | 479,384 | | 479,384 |
| Other short-term borrowings | 790,080 | | 790,080 | | 790,080 |
| Total short-term financial liabilities | 2,197,623 | | 2,197,623 | | 2,197,623 |
| Term borrowings | | | | | |
| Real estate investment trust-preferred | 45,879 | | | 49,350 | 49,350 |
| Term borrowings new market tax credit investment | 18,000 | | | 17,880 | 17,880 |
| Borrowings secured by residential real estate | 70,720 | | | 61,031 | 61,031 |
| Other long term borrowings | 1,356,539 | | 1,346,281 | | 1,346,281 |
| Total term borrowings | 1,491,138 | | 1,346,281 | 128,261 | 1,474,542 |
| Derivative liabilities (a) | 123,442 | 2,895 | 112,907 | 7,640 | 123,442 |
| Other noninterest-bearing liabilities | | | | | |
| Capital markets payables | 329,960 | | 329,960 | | 329,960 |
| Accrued interest payable | 30,984 | | 30,984 | | 30,984 |
| Total other noninterest-bearing liabilities | 360,944 | | 360,944 | | 360,944 |
| Total liabilities | $ 20,850,152 | $ 2,895 | $ 20,700,232 | $ 135,901 | $ 20,839,028 |

(a) Classes are detailed in the recurring and nonrecurring measurement tables.

(b) Level 3 includes restricted investments in FHLB-Cincinnati stock of $87.9 million and FRB stock of $66.0 million.

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**Note 17 Fair Value of Assets & Liabilities (Continued)**

| | September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Book | Fair Value | | | |
| *(Dollars in thousands)* | Value | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | |
| Loans, net of unearned income and allowance for loan losses | | | | | |
| Commercial: | | | | | |
| Commercial, financial and industrial | $ 7,655,562 | $ | $ | $ 7,502,354 | $ 7,502,354 |
| Commercial real estate | 1,162,718 | | | 1,115,304 | 1,115,304 |
| Retail: | | | | | |
| Consumer real estate | 5,337,221 | | | 4,859,306 | 4,859,306 |
| Permanent mortgage | 672,138 | | | 589,999 | 589,999 |
| Credit card & other | 325,207 | | | 327,075 | 327,075 |
| Total loans, net of unearned income and allowance for loan losses | 15,152,846 | | | 14,394,038 | 14,394,038 |
| Short-term financial assets | | | | | |
| Interest-bearing cash | 184,179 | 184,179 | | | 184,179 |
| Federal funds sold | 52,830 | | 52,830 | | 52,830 |
| Securities purchased under agreements to resell | 576,355 | | 576,355 | | 576,355 |
| Total short-term financial assets | 813,364 | 184,179 | 629,185 | | 813,364 |
| Trading securities (a) | 1,343,134 | | 1,327,415 | 15,719 | 1,343,134 |
| Loans held-for-sale (a) | 371,640 | | | 371,640 | 371,640 |
| Securities available-for-sale (a) (b) | 3,186,943 | 20,267 | 2,954,224 | 212,452 | 3,186,943 |
| Derivative assets (a) | 215,116 | 16,877 | 198,239 | | 215,116 |
| Other assets | | | | | |
| Tax credit investments | 69,115 | | | 69,115 | 69,115 |
| Deferred compensation assets | 23,193 | 23,193 | | | 23,193 |
| Total other assets | 92,308 | 23,193 | | 69,115 | 92,308 |
| Nonearning assets | | | | | |
| Cash & due from banks | 395,631 | 395,631 | | | 395,631 |
| Capital markets receivables | 83,154 | | 83,154 | | 83,154 |
| Accrued interest receivable | 71,889 | | 71,889 | | 71,889 |
| Total nonearning assets | 550,674 | 395,631 | 155,043 | | 550,674 |
| Total assets | $ 21,726,025 | $ 640,147 | $ 5,264,106 | $ 15,062,964 | $ 20,967,217 |
| Liabilities: | | | | | |
| Deposits: | | | | | |
| Defined maturity | $ 1,573,405 | $ | $ 1,591,314 | $ | $ 1,591,314 |

| | | | | | |
|---|---|---|---|---|---|
| Undefined maturity | 14,710,504 | | 14,710,504 | | 14,710,504 |
| Total deposits | 16,283,909 | | 16,301,818 | | 16,301,818 |
| Trading liabilities (a) | 585,969 | | 585,969 | | 585,969 |
| Short-term financial liabilities | | | | | |
| Federal funds purchased | 1,062,901 | | 1,062,901 | | 1,062,901 |
| Securities sold under agreements to repurchase | 427,232 | | 427,232 | | 427,232 |
| Other short-term borrowings | 303,686 | | 291,971 | 11,715 | 303,686 |
| Total short-term financial liabilities | 1,793,819 | | 1,782,104 | 11,715 | 1,793,819 |
| Term borrowings | | | | | |
| Real estate investment trust-preferred | 45,811 | | | 47,000 | 47,000 |
| Term borrowings new market tax credit investment | 18,000 | | | 18,025 | 18,025 |
| Borrowings secured by residential real estate | 329,574 | | | 194,905 | 194,905 |
| Other long term borrowings | 1,377,903 | | 1,365,535 | | 1,365,535 |
| Total term borrowings | 1,771,288 | | 1,365,535 | 259,930 | 1,625,465 |
| Derivative liabilities (a) | 165,918 | 9,770 | 153,403 | 2,745 | 165,918 |
| Other noninterest-bearing liabilities | | | | | |
| Capital markets payables | 53,784 | | 53,784 | | 53,784 |
| Accrued interest payable | 33,924 | | 33,924 | | 33,924 |
| Total other noninterest-bearing liabilities | 87,708 | | 87,708 | | 87,708 |
| Total liabilities | $ 20,688,611 | $ 9,770 | $ 20,276,537 | $ 274,390 | $ 20,560,697 |

(a) Classes are detailed in the recurring and nonrecurring measurement tables.

(b) Level 3 includes restricted investments in FHLB-Cincinnati stock of $128.0 million and FRB stock of $66.0 million.

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**Note 17 Fair Value of Assets & Liabilities (Continued)**

| | Contractual Amount | | Fair Value | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **September 30, 2014** | September 30, 2013 | **September 30, 2014** | September 30, 2013 |
| **Unfunded Commitments:** | | | | |
| Loan commitments | **$ 7,411,045** | $ 7,550,487 | **$ 2,368** | $ 1,722 |
| Standby and other commitments | **320,286** | 302,160 | **4,879** | 4,819 |

Certain previously reported amounts have been reclassified to agree with current presentation.

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## Note 18 Restructuring, Repositioning, and Efficiency

Beginning in 2007, FHN conducted a company-wide review of business practices with the goal of improving its overall profitability and productivity. Such reviews continue throughout the organization. Since 2007, in order to redeploy capital to higher-return businesses, FHN exited or sold non-strategic businesses, eliminated layers of management, and consolidated functional areas.

Generally, restructuring, repositioning, and efficiency charges related to exited businesses are included in the non-strategic segment while charges related to corporate-driven actions are included in the corporate segment. Net charges recognized by FHN during the nine months ended September 30, 2014 related to restructuring, repositioning, and efficiency activities were $7.4 million. Of this amount, $7.2 million represent exit costs that were accounted for in accordance with the Exit of Disposal Cost Obligations Topic of the FASB Accounting Standards Codification ( ASC 420 ). Significant expenses recognized during the nine months ended September 30, 2014 resulted from the following actions:

- Severance and other employee costs of $2.5 million primarily related to efficiency initiatives within corporate and bank services functions which are classified as Employee compensation, incentives and benefits within noninterest expense.

- Lease abandonment expenses of $4.7 million primarily related to efficiency initiatives within corporate and bank services functions which are classified as Occupancy within noninterest expense.

During the nine months ended September 30, 2013, FHN recognized a net cost of $4.5 million related to restructuring, repositioning, and efficiency activities. Included in this amount is $3.0 million representing exit costs that were accounted for in accordance with ASC 420. Significant expenses recognized during the nine months ended September 30, 2013 resulted from the following actions:

- Severance and other employee costs of $2.6 million primarily related to efficiency initiatives within corporate and bank services functions which are classified as Employee compensation, incentives and benefits within noninterest expense.

- Expense of $2.2 million related to estimated costs for obligations associated with a definitive agreement to sell substantially all remaining legacy mortgage servicing which is reflected in Mortgage banking income.

Settlement of the obligations arising from current initiatives will be funded from operating cash flows. The effect of suspending depreciation on assets held-for-sale was immaterial to FHN s results of operations for all periods. Due to the broad nature of the actions being taken, substantially all components of expense have benefited from past efficiency initiatives and are expected to benefit from the current efficiency initiatives.

Activity in the restructuring and repositioning liability for the three and nine months ended September 30, 2014 and 2013, is presented in the following table, along with other restructuring and repositioning expenses recognized.

| | Three Months Ended September 30 | | | | Nine Months Ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2014** | | 2013 | | **2014** | | 2013 | |
| *(Dollars in thousands)* | **Expense** | **Liability** | Expense | Liability | **Expense** | **Liability** | Expense | Liability |
| Beginning balance | | **$ 7,247** | | $ 4,277 | | **$ 3,126** | | $ 19,775 |
| Severance and other employee related costs | **$ 926** | **926** | $ 1,160 | 1,160 | **$ 2,495** | **2,495** | $ 2,620 | 2,620 |
| Facility consolidation costs | **49** | **49** | 38 | 38 | **4,657** | **4,657** | 416 | 416 |
| Total accrued | **975** | **8,222** | 1,198 | 5,475 | **7,152** | **10,278** | 3,036 | 22,811 |
| Payments related to: | | | | | | | | |
| Severance and other employee related costs | | **950** | | 826 | | **2,452** | | 17,490 |
| Facility consolidation costs | | **278** | | 248 | | **802** | | 824 |
| Accrual reversals | | | | 7 | | **30** | | 103 |
| Restructuring and repositioning reserve balance | | **$ 6,994** | | $ 4,394 | | **$ 6,994** | | $ 4,394 |
| Other restructuring and repositioning expense: | | | | | | | | |
| Mortgage banking (income)/expense on servicing sales | | | 2,192 | | **(9)** | | 2,192 | |
| (Gains)/losses on divestitures | | | (365) | | | | (1,004) | |
| Impairment of premises and equipment | | | 369 | | **222** | | 369 | |
| Other | | | | | | | (96) | |
| Total other restructuring and repositioning expense | | | 2,196 | | **213** | | 1,461 | |
| Total restructuring and repositioning charges | **$ 975** | | $ 3,394 | | **$ 7,365** | | $ 4,497 | |

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**Note 18 Restructuring, Repositioning, and Efficiency (Continued)**

FHN began initiatives related to restructuring in second quarter 2007. The following table presents cumulative amounts incurred to date through September 30, 2014, for costs associated with FHN s restructuring, repositioning, and efficiency initiatives:

| *(Dollars in thousands)* | Total Expense |
|---|---|
| Severance and other employee related costs | $ 106,879 |
| Facility consolidation costs | 45,484 |
| Other exit costs, professional fees, and other | 19,165 |
| Other restructuring and repositioning expense: | |
| Loan portfolio divestiture | 7,672 |
| Mortgage banking expense on servicing sales | 25,993 |
| (Gains)/losses on divestitures | (718) |
| Impairment of premises and equipment | 23,004 |
| Impairment of intangible assets | 48,231 |
| Impairment of other assets | 40,504 |
| Other | 7,478 |
| Total restructuring and repositioning charges incurred to date as of September 30, 2014 | $ 323,692 |

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

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# FIRST HORIZON NATIONAL CORPORATION

# MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL

# CONDITION AND RESULTS OF OPERATIONS

## GENERAL INFORMATION

First Horizon National Corporation ( FHN ) began as a community bank chartered in 1864 and as of September 30, 2014, was one of the 40 largest publicly traded banking organizations in the United States in terms of asset size.

The corporation s two major brands First Tennessee and FTN Financial provide customers with a broad range of products and services. First Tennessee provides retail and commercial banking services throughout Tennessee and other selected markets and is the largest bank headquartered in the state of Tennessee. FTN Financial ( FTNF ) is an industry leader in fixed income sales, trading, and strategies for institutional clients in the U.S. and abroad.

FHN is composed of the following operating segments:

Regional banking offers financial products and services including traditional lending and deposit-taking to retail and commercial customers largely in Tennessee and other selected markets. Regional banking provides investments, financial planning, trust services and asset management, along with credit card and cash management. Additionally, the regional banking segment includes correspondent banking which provides credit, depository, and other banking related services to other financial institutions nationally.

Capital markets provides financial services for depository and non-depository institutions through the sale and distribution of fixed income securities, loan sales, portfolio advisory services, and derivative sales.

Corporate consists of unallocated corporate expenses, expense on subordinated debt issuances, bank-owned life insurance ( BOLI ), unallocated interest income associated with excess equity, net impact of raising incremental capital, revenue and expense associated with deferred compensation plans, funds management, tax credit investment activities, acquisition-related costs, and various charges related to restructuring, repositioning, and efficiency initiatives.

Non-strategic includes exited businesses and wind-down national consumer lending activities, other discontinued products, loan portfolios and service lines, and certain charges related to restructuring, repositioning, and efficiency initiatives.

On June 7, 2013, First Tennessee Bank National Association ( FTBNA ), a subsidiary of FHN, acquired substantially all of the assets and assumed substantially all of the liabilities of Mountain National Bank ( MNB ) from the Federal Deposit Insurance Corporation ( FDIC ), as receiver. Excluding purchase accounting adjustments, FHN acquired approximately $452 million in assets, including approximately $249 million in loans excluding loan discounts, and assumed approximately $362 million of MNB deposits. On May 27, 2014, FTBNA entered into an agreement to purchase thirteen bank branches. The purchase of the branches closed on October 17, 2014. FTBNA paid a deposit premium of 3.32 percent based on deposit balances near the time the transaction closed; those balances approximated

$440 million. FTBNA acquired an immaterial amount of loans as part of the transaction. 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. At September 30, 2014, TrustAtlantic Financial reported on a consolidated basis, approximately $453 million of total assets and approximately $395 million of total deposits. In the transaction, approximately 75 percent of the shares of TrustAtlantic Financial will be converted into shares of FHN common stock at an exchange ratio of 1.4240 FHN shares for each TrustAtlantic Financial share, and approximately 25 percent of the shares of TrustAtlantic Financial will be converted into cash. At FHN s stock price of $11.94 per share used to establish the exchange ratio, the aggregate transaction value is estimated to approximate $80 million. The transaction is expected to close in the first half of 2015, subject to the approval of the shareholders of TrustAtlantic Financial as well as regulatory approvals and other customary conditions to closing. Refer to Note 2 Acquisitions and Divestitures for additional information.

For the purpose of this management s discussion and analysis ( MD&A ), earning assets have been expressed as averages, unless otherwise noted, and loans have been disclosed net of unearned income. The following financial discussion should be read with the accompanying unaudited Consolidated Condensed Financial Statements and Notes in this report. Additional information including the 2013 financial statements, notes, and MD&A is provided in FHN s 2013 Annual Report.

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### Non-GAAP Measures

Certain ratios are included in the narrative and tables in MD&A that are non-GAAP, meaning they are not presented in accordance with generally accepted accounting principles ( GAAP ) in the U.S. FHN s management believes such measures are relevant to understanding the capital position and results of the company. The non-GAAP ratio presented in this filing is the tier 1 common capital ratio. This measure is reported to FHN s management and board of directors through various internal reports. Additionally, disclosure of the non-GAAP capital ratio provides a meaningful base for comparability to other financial institutions as this ratio has become an important measure of the capital strength of banks as demonstrated by its use by banking regulators in reviewing capital adequacy of financial institutions. Non-GAAP measures are not formally defined by GAAP or codified in currently effective federal banking regulations, and other entities may use calculation methods that differ from those used by FHN. Tier 1 Capital is a regulatory term and is generally defined as the sum of core capital (including common equity and certain instruments that cannot be redeemed at the option of the holder) adjusted for certain items under risk-based capital regulations. Risk-weighted assets is a regulatory term which includes total assets adjusted for credit and market risk and is used to determine regulatory capital ratios. Refer to Table 23 for a reconciliation of non-GAAP to GAAP measures and presentation of the most comparable GAAP items.

### FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements with respect to FHN s beliefs, plans, goals, expectations, and estimates. Forward-looking statements are statements that are not a representation of historical information but rather are related to future operations, strategies, financial results, or other developments. The words believe, expect, anticipate, intend, estimate, should, is likely, will, going forward, and other expressions that indicate future trends identify forward-looking statements. Forward-looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, operational, economic and competitive uncertainties and contingencies, many of which are beyond FHN s control, and many of which, with respect to future business decisions and actions (including acquisitions and divestitures), are subject to change. Examples of uncertainties and contingencies include, among other important factors, global, general and local economic and business conditions, including economic recession or depression; the level and length of deterioration in the residential housing and commercial real estate markets; potential requirements for FHN to repurchase, or compensate for losses from, previously sold or securitized mortgages or securities based on such mortgages; potential claims relating to the foreclosure process; potential claims relating to participation in government programs, especially lending or other financial services programs; expectations of and actual timing and amount of interest rate movements, including the slope and shape of the yield curve, which can have a significant impact on a financial services institution; market and monetary fluctuations, including fluctuations in mortgage markets; inflation or deflation; customer, investor, regulatory, and legislative responses to any or all of these conditions; the financial condition of borrowers and other counterparties; competition within and outside the financial services industry; geopolitical developments including possible terrorist activity; natural disasters; effectiveness and cost-efficiency of FHN s hedging practices; technological changes; fraud, theft, or other incursions through conventional, electronic, or other means affecting FHN directly or affecting its customers, business counterparties or competitors; demand for FHN s product offerings; new products and services in the industries in which FHN operates; the increasing use of new technologies to interact with customers and others; and critical accounting estimates. Other factors are those inherent in originating, selling, servicing, and holding loans and loan-based assets, including prepayment risks, pricing concessions, fluctuation in U.S. housing and other real estate prices, fluctuation of collateral values, and changes in customer profiles. Additionally, the actions of the Securities and Exchange Commission ( SEC ), the Financial Accounting Standards Board ( FASB ), the Office of the Comptroller of the Currency ( OCC ), the Board of Governors of the Federal Reserve System ( Federal Reserve ), the Federal Deposit Insurance Corporation ( FDIC ), Financial Industry Regulatory Authority ( FINRA ), the Municipal Securities Rulemaking Board ( MSRB ), the Consumer Financial Protection Bureau ( Bureau ), the Financial Stability

Oversight Council ( Council ), and other regulators and agencies; pending, threatened, or possible future regulatory, administrative, and judicial outcomes, actions, and proceedings; changes in laws and regulations applicable to FHN; and FHN s success in executing its business plans and strategies and managing the risks involved in the foregoing, could cause actual results to differ, perhaps materially, from those contemplated by the forward-looking statements. FHN assumes no obligation to update or revise, whether as a result of new information, future events, or otherwise, any forward-looking statements that are made in this Quarterly Report or otherwise from time to time. Actual results could differ and expectations could change, possibly materially, because of one or more factors, including those presented in this Forward-Looking Statements section, in other sections of this MD&A, in other parts of and exhibits to this Quarterly Report on Form 10-Q for the period ended September 30, 2014, and in documents incorporated into this Quarterly Report.

## FINANCIAL SUMMARY

For third quarter 2014, FHN reported net income available to common shareholders of $45.3 million or $.19 per diluted share compared to a net loss of $107.5 million or $.45 loss per diluted share in third quarter 2013. For the nine months ended September 30, 2014, FHN reported net income available to common shareholders of $167.0 million or $.71 per diluted share compared to a net loss of $25.6 million or $.11 loss per diluted share for the nine months ended September 30, 2013. The impact on net income available to common shareholders from preferred stock dividends was $1.6 million for third quarters 2014 and 2013 and was $4.7 million and $4.3 million, respectively, for the nine months ended September 30, 2014 and 2013. The improvement in results for the three months ended September 30, 2014, compared to the comparative period of the prior year was driven by decreases in expenses and in the loan loss provision coupled with an increase in revenues. For the nine months ended September 30, 2014, the improvement in results was the result of lower expenses and loan loss provision, which more than offset a decline in revenues.

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In third quarter 2014, FHN sold approximately $315 million in UPB of held-for-sale ( HFS ) mortgage loans, which resulted in the recognition of $39.7 million in gains recorded in mortgage banking. Additionally, in third quarter 2014 FHN recorded $50.4 million in pre-tax loss accruals related to legal matters, but these were somewhat offset by $15.0 million in expense reversals related to agreements reached with insurance companies for expenses FHN previously incurred associated with litigation losses in previous periods, resulting in net loss accruals related to legal matters of $35.4 million. In second quarter 2014, FHN recognized $47.1 million in expense reversals related to agreements reached with insurance companies for litigation losses and legal fees associated with a lawsuit FHN settled in 2011 involving the bankruptcy trustee for Sentinel Management Group Inc. Of this amount $38.6 million was recorded as a reduction to losses from litigation and regulatory matters and $8.5 million was recorded as a reduction to legal and professional fees. Also in second quarter 2014, $8.2 million of positive fair value adjustments on the non-performing portion of the held-for-sale portfolio was recognized as a result of new information on market pricing for similar assets. In first quarter 2014, FHN recognized approximately $20 million of previously unrecognized servicing fees in conjunction with mortgage servicing sales, and recorded a $5.6 million gain related to the sale of a cost method investment. Additionally, in first quarter 2014 FHN recognized a net $6.4 million loss on the collapse/deconsolidation of three previously on-balance sheet consumer loan securitizations and $5.7 million of restructuring-related charges. During first quarter 2014 FHN recorded $60.1 million in pre-tax loss accruals related to legal matters, but these were offset by $60.0 million in expense reversals related to agreements reached with insurance companies for expenses FHN previously incurred associated with litigation losses in previous periods, resulting in net loss accruals related to legal matters of $.1 million.

Total revenue for the three and nine months ended September 30, 2014, was $317.4 million and $899.1 million, respectively, compared to $309.3 million and $929.8 million for the three and nine months ended September 30, 2013. The increase in revenue during third quarter 2014 relative to third quarter 2013 was primarily driven by the gain on the HFS mortgage loans, partially offset by a decrease in capital markets income in 2014 relative to 2013. The decline in revenue during the nine months ended September 30, 2014, relative to the prior year was primarily driven by a decrease in capital markets income and net interest income ( NII ), as well as a $4.4 million loss recognized on the extinguishment of debt. These declines were partially mitigated by positive fair value adjustments to the mortgage warehouse valuation recognized during second quarter 2014 and additional servicing fees received in conjunction with the servicing sales. Additionally net securities gains also mitigated a portion of the decrease.

For the three and nine months ended September 30, 2014, expenses decreased 43 percent and 30 percent from the prior year to $246.2 million and $631.7 million, respectively, due to a significant decline in repurchase and foreclosure provision expense due to the resolution of certain legacy selling representation and warranty repurchase obligations in third quarter 2013, as well as decreases in personnel expense, primarily driven by lower capital markets variable compensation. Additionally, decreases in contract employment expenses, and lower FDIC premiums also contributed to the decline in expenses during the three and nine months ended September 30, 2014 relative to the prior year. During third quarter 2014, other expenses were negatively impacted by a net increase in loss accruals related to legal matters relative to third quarter 2013. For the year-to-date period, legal fees were lower resulting from expense reversals associated with the Sentinel matter previously mentioned, but were partially offset by increases in occupancy expense related to restructuring, repositioning, and efficiency initiatives.

On a consolidated basis, credit quality continued to improve in 2014 relative to a year ago, resulting in a $4.0 million decline in the loan loss provision to $6.0 million in third quarter 2014 and a $19.0 million decline in the loan loss provision to $21.0 million for the nine months ended September 30, 2014. Improvement from third quarter 2013 resulted in a 7 percent decline in the allowance for loan losses ( ALLL ), a 26 percent decline in non-performing loans, and a 32 percent decline in net charge-offs from a year ago.

Return on average common equity and return on average assets for third quarter 2014 were 7.99 percent and .83 percent, respectively, compared to negative 20.39 percent and negative 1.69 percent, respectively, in third quarter 2013. During the nine months ended September 30, 2014 and 2013, the return on average common equity was 10.18 percent and negative 1.58 percent, respectively, and the return on average assets was 1.01 percent and negative .07 percent, respectively. The Tier 1 capital ratio was 14.47 percent as of September 30, 2014, compared to 13.28 percent on September 30, 2013. Total period-end assets increased to $24.0 billion on September 30, 2014, from $23.9 billion on September 30, 2013. Average loans increased 1 percent to $15.8 billion in third quarter 2014, and declined 3 percent to $15.4 billion during the nine months ended September 30, 2014 relative to the same periods of 2013. Average core deposits decreased 4 percent and 1 percent to $15.4 billion and $15.7 billion, respectively, in the three and nine months ended September 30, 2014 relative to the same periods in 2013. Period-end and average shareholders equity increased to $2.6 billion in 2014 from $2.5 billion in 2013.

## BUSINESS LINE REVIEW

### Regional Banking

Pre-tax income within the regional banking segment was $79.6 million during third quarter 2014 compared to $76.3 million in third quarter 2013. The increase in pre-tax income was due to a 3 percent increase in net interest income and a decline in loan loss provision expense which more than offset higher expenses from a year ago. For the nine months ended September 30, 2014, the regional banking pre-tax income was $208.4 million compared to $221.3 million for the nine months ended September 30, 2013. The decline in pre-tax income was driven by an increase in noninterest expenses and loan loss provision expense, which were partially offset by an increase in fee income.

Total revenue increased 2 percent from $213.4 million in third quarter 2013 to $218.0 million in third quarter 2014, primarily driven by an increase in NII. NII was $153.9 million in third quarter 2014 compared to $149.5 million in third quarter 2013. The increase in NII was primarily because of improved deposit pricing compared to third quarter 2013. Fee income increased slightly to $64.2 million in third quarter 2014 from $63.9 million in third quarter 2013. Higher brokerage, management fees, and commission income from the Bank s wealth management group in 2014 more than offset a decline in fees from deposit transactions compared to a year ago. The increase in brokerage, management fees, and commission income in 2014 is due to FHN s strategic focus on growing these businesses with new products and offerings, an expanded sales force, and a refined advisory team strategy.

For third quarter 2014, the loan loss provision was $2.2 million compared to $5.2 million from a year ago. Overall provision levels in 2014 relative to 2013 reflect continued favorable trends in the commercial portfolio including favorable grade migration, lower levels of nonperforming loans, and historically low net charge-off levels. Reserves and associated provision expense also consider the current macro-economic environment. The decline in provision in third quarter 2014 compared to 2013 was driven by the credit card and other portfolio while the provision credit of $1.8 million associated with the commercial portfolio was relatively flat compared to 2013. For the quarterly comparative periods, commercial net charge-offs declined from $1.2 million in 2013 to $.2 million in 2014 while consumer net charge-offs increased to $5.9 million in 2014 from $3.2 million in 2013.

Noninterest expense was $136.3 million in third quarter 2014 compared to $132.0 million in third quarter 2013. The increase in expense was attributable to costs associated with consulting projects along with costs incurred for process improvements across the organization. The increase in these costs more than offset a decline in advertising expenses from third quarter 2013 due to branding initiatives last year associated with FTB Advisors. Third quarter 2013 expenses within the bank were also favorably affected by an expense reversal associated with a long-term disability plan design change, a portion of which was allocated to the regional bank.

Total revenue for the nine months ended September 30, 2014 and 2013 was $634.9 million and $629.8 million, respectively, driven by higher fee income. The growth in fee income in 2014 relative to the nine months ended September 30, 2013 was due to a 22 percent increase in fees from the wealth management business as discussed above. Additionally, bankcard income increased in 2014 because $2.8 million of Visa volume incentives were recognized in second quarter. Deposit fee income declined $2.2 million to $80.1 million for the nine months ended September 30, 2014 primarily because of lower cash management fees on commercial deposit products and overall lower managed balances. NII was relatively flat for the nine months ended September 30, 2014 compared to 2013.

For the year-to-date periods, provision expense was $23.6 million in 2014 compared to $15.9 million in 2013. The increase was largely driven by the consumer credit card portfolio primarily due to refinement of the reserving process for the smaller balance credit card portfolio and an uptick in net charge-offs and delinquencies in that portfolio in the first half of 2014. Provision expense associated with the commercial portfolio for the nine months ended

September 30, 2014 and 2013 was not material. For the nine months ended September 30, 2014 and 2013, commercial net charge-offs declined from $8.8 million during 2013 to $2.4 million in 2014 while consumer portfolio charge-offs were up by $4.5 million to $14.4 million in 2014.

Noninterest expense for the nine months ended September 30, 2014 was $402.9 million compared to $392.6 million in 2013. The increase in expense was largely attributable to wealth management incentives and strategic hires and retention in growth markets, as well as increases in contract employment, professional fees, and computer software expenses due to a focus on strategic technology-related projects. These increases were partially offset by lower FDIC premium costs and a reduction in allocated personnel expenses.

**Capital Markets**

Pre-tax income in the capital markets segment was $4.9 million during third quarter 2014 compared to $10.0 million in third quarter 2013. For the nine months ended September 30, 2014, capital markets pre-tax income was $62.6 million compared to $41.5 million for the nine months ended September 30, 2013. Pre-tax income for the nine months ended September 30, 2014 was higher when compared with the same period in 2013 because of a $47.1 million expense reversal that was recognized in second quarter 2014 related to the Sentinel litigation matter which was settled in 2011.

Fixed income revenue was $41.2 million in third quarter 2014, down from $54.4 million in third quarter 2013, as average daily revenue ( ADR ) decreased from $.9 million in 2013 to $.6 million in 2014. For the nine months ended September 30, 2014, fixed income revenue was $131.3 million compared to $180.9 million for the nine months ended September 30, 2013. The decline in fixed income revenue in both the quarterly and year-to-date comparative periods reflects less favorable market conditions in 2014 relative to the prior year, as ADR levels continue to be muted due to low rates, low market volatility and uncertainty around the Fed s monetary policy.

Other product revenue decreased to $6.4 million and $20.8 million for the three and nine months ended September 30, 2014 from $9.9 million and $31.8 million in the respective periods of 2013. The decline in revenue from other products is largely because of a decrease in revenues from loan trading and related activities.

Noninterest expense was $47.9 million and $57.9 million in third quarter 2014 and 2013, respectively and $100.6 million and $179.3 million for the nine months ended September 30, 2014 and 2013, respectively. In addition to the Sentinel-related expense reversals previously mentioned, lower variable compensation expenses, as a result of lower fixed income revenues in 2014, also contributed to the reduction in noninterest expense in 2014 for the quarterly and year-to-date comparative periods.

**Corporate**

The pre-tax loss for the corporate segment was $27.2 million and $26.8 million during the quarters ended September 30, 2014 and 2013, respectively, and was $63.7 million and $71.2 million for the nine months ended September 30, 2014 and 2013, respectively.

Net interest expense was $12.5 million in third quarter 2014 compared to $11.7 million in third quarter 2013. Noninterest income (including securities gains/losses) decreased $2.4 million to $4.1 million in third quarter 2014 and was largely the result of a decline in deferred compensation income. Deferred compensation income fluctuates with changes in the market value of the underlying investments and is mirrored by changes in deferred compensation expense which is included in personnel expense. Noninterest expense declined $3.0 million to $18.8 million for third quarter 2014 as a result of a decrease in severance costs, deferred compensation expense, and salaries. The impact of these expense declines from third quarter 2013 was partially offset by a $2.3 million increase in negative valuation adjustments that were recognized on the derivatives related to prior sales of Visa Class B shares in 2014 relative to the prior year.

For the nine months ended September 30, 2014, net interest expense was $32.2 million, down slightly from $32.9 million in the same period of 2013. During this period, noninterest income (including securities gains/losses) increased $4.3 million to $22.6 million, driven by a $5.6 million gain associated with the sale of a cost method investment in first quarter 2014 which was partially offset by lower deferred compensation income from a year ago.

Noninterest expense was $54.2 million and $56.5 million for the nine months ended September 30, 2014 and 2013, respectively. The net $2.3 million decrease in expenses was the result of a decline in personnel expenses driven by a decline in severance-related costs, deferred compensation expenses, and salaries. Professional fees associated with various consulting projects and expenses associated with tax credit investments also declined from a year ago. These declines were partially offset by an efficiency-related lease abandonment expense of $4.7 million recognized in 2014, a $4.2 million increase in negative valuation adjustments related to the Visa-related derivatives relative to the prior year, and elevated advertising costs related to FTBNA s 150th anniversary celebration campaign.

**Non-Strategic**

The non-strategic segment had pre-tax income of $7.8 million in third quarter 2014, compared to a pre-tax loss of $193.7 million in third quarter 2013. An increase in fee income and a significant decline in expenses contributed to the year-over-year improved results.

Total revenue was $54.9 million and $33.1 million in third quarter 2014 and 2013, respectively. Noninterest income increased $23.7 million in 2014 to $39.6 million while NII declined 11 percent to $15.3 million in 2014 from $17.1 million in the prior year. The decline in NII is primarily due to a 17 percent reduction in average loans from third quarter 2013 as the legacy portfolios continue to run-off.

Mortgage banking income, the primary component of fee income within non-strategic, increased $27.1 million to $41.6 million in third quarter 2014. The net increase was driven by a number of items. First, in third quarter 2014, FHN sold approximately $315 million in unpaid principal balance of mortgage loans held-for-sale that resulted in a $39.7 million valuation gain that was recognized within mortgage banking income. Second, in third quarter 2013, FHN signed a definitive agreement to sell substantially all remaining legacy mortgage servicing, and as a result of the valuation adjustment reflecting the terms of the agreement, positive net hedging results were $12.9 million in third quarter 2013 and were not material in third quarter 2014. Because of the sales of mortgage servicing in fourth quarter 2013 and first quarter 2014, servicing fees declined from $10.9 million in 2013 to $.2 million in 2014.

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The provision for loan losses was $3.8 million in third quarter 2014 compared to $4.8 million in 2013.

Noninterest expense declined $178.7 million to $43.2 million in third quarter 2014 from $221.9 million in third quarter 2013 primarily because of significantly lower repurchase and foreclosure provision that was somewhat offset by an increase in loss accruals related to legal matters. Third quarter 2013 included $200.0 million of repurchase and foreclosure provision stemming from the resolution of certain legacy representations and warranty mortgage loan repurchase obligations to a government-sponsored entity ( GSE ). Third quarter 2014 includes $50.2 million of loss accruals associated with certain legal matters. Additionally, 2014 expenses were favorably affected by a $15.0 million expense reversal associated with agreements with insurance companies for the recovery of expenses FHN incurred related to litigation losses in prior periods. Also, $4.3 million of repurchase and foreclosure provision was reversed in 2014 because of a settlement of certain repurchase claims. Contract employment, which primarily includes mortgage subservicing costs, declined $5.5 million to $.8 million as a result of the mortgage servicing sales mentioned above.

Pre-tax income for the nine months ended September 30, 2014 was $39.1 million compared to a pre-tax loss of $203.4 million in 2013. Net interest income decreased $9.1 million to $47.3 million for the nine months ended September 30, 2014 due to a smaller loan portfolio from a year ago.

Noninterest income (including securities gains/losses) was $63.3 million for the nine months ended September 30, 2014 compared to $37.5 million in 2013. During that same period, mortgage banking income increased by $40.2 million to $69.4 million in 2014. The increase was driven by the valuation gains on loan sales mentioned above as well as $8.2 million of favorable valuation adjustments recognized on loans in second quarter 2014 compared with $3.6 million of negative valuation adjustments in 2013. Servicing fees were down $14.4 million in 2014 from $35.3 million a year ago because of the mortgage servicing sales mentioned above. 2014 includes the receipt of approximately $20.0 million in previously unrecognized servicing fees in conjunction with transfers of servicing in first quarter 2014. Net hedging results declined in 2014 as 2013 included favorable valuation adjustments to MSR because of the mark to the sales agreement. The negative impact of runoff on the value of MSR was not material in 2014 compared with $17.0 million in 2013.

Noninterest income for the nine months ended September 30, 2014 compared to 2013 was negatively affected by a number of transactions including a $4.4 million loss on the extinguishment of debt associated with the collapse of two HELOC securitization trusts, a $2.0 million loss on the deconsolidation of a securitization trust, and $3.0 million in securities losses. Additionally, 2013 included $3.5 million of gains from the reversals of previously established lower of cost or market ( LOCOM ) adjustments associated with trust preferred ( TRUP ) loan payoffs.

The provision credit for the nine months ended September 30, 2014 was $2.6 million compared to provision expense of $24.1 million in the same period of 2013. Overall, provision levels in both periods declined relative to the prior year largely because of improvement in and runoff of the consumer real estate portfolio from a year ago. In addition, the C&I portfolio within non-strategic also improved due to dispositions and payoffs of a number of TRUPS that were on interest deferral during these periods.

For the nine months ended September 30, 2014, noninterest expense declined 73 percent to $74.1 million from $273.1 million for the nine months ended September 30, 2013. The significant drivers of year-to-date declines are generally consistent with the variances described above in the quarterly expense trend analysis. During the nine months ended September 30, 2014 loss accruals associated with certain legal matters were $110.4 million, but were partially offset by $75.0 million of expense reversals associated with agreements with insurance companies for the recovery of expenses FHN incurred related to litigation losses in prior periods. Generally, most other expense categories declined given the continued wind-down of the legacy businesses.

**INCOME STATEMENT REVIEW**

Total consolidated revenue was $317.4 million in third quarter 2014, up 3 percent from third quarter 2013, largely driven by an increase from mortgage banking activities, partially offset by lower fixed income sales revenue within capital markets. Total expenses decreased in third quarter 2014 relative to third quarter 2013, primarily due to a decline in repurchase and foreclosure provision expense related to a DRA agreement reached with a GSE in 2013 that led to a $200.0 million charge to the provision in the prior year. Also contributing to the decline, personnel expenses decreased in third quarter 2014, relative to third quarter 2013. These declines were partially offset by an increase in expense associated with litigation and regulatory matters in third quarter 2014. For the nine months ended September 30, 2014, total consolidated revenue was $899.1 million compared to $929.8 million during the same period of 2013. The decline in revenues was primarily due to decreases in capital markets fixed income revenue and net interest income, partially offset by an increase from mortgage banking activities. Total expenses decreased 30 percent, or $269.8 million, during the nine months ended September 30, 2014 to $631.7 million, largely driven by the decrease in repurchase and foreclosure provision expense, as well as lower personnel and contract employment expenses.

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## NET INTEREST INCOME

Net interest income was $159.5 million and $158.8 million in third quarters 2014 and 2013, respectively. For the three months ended September 30, 2014, the increase in NII was largely due to lower deposit rates and an increase in the investment securities portfolio, offset by run-off of the non-strategic loan portfolio. For the nine months ended September 30, 2014, NII was $468.7 million, a 2 percent decline from $480.2 million for the nine months ended September 30, 2013. For the nine months ended September 30, 2014, the decrease in NII was primarily attributable to run-off of the non-strategic loan portfolio and lower balances of loans to mortgage companies, somewhat mitigated by improved deposit pricing, and an increase in the investment securities portfolio. Average earning assets were $21.7 billion and $21.5 billion in third quarters 2014 and 2013, respectively and $21.6 billion and $21.9 billion for the nine months ended September 30, 2014 and 2013, respectively. The increase in average earning assets during third quarter 2014 relative to prior year was primarily driven by increases in the investment securities portfolio and average loan balances, partially offset by declines in interest-bearing cash and capital markets securities inventory. For the nine months ended September 30, 2014 the decline in average earning assets was primarily due to a decrease in average loan balances, but was also impacted by a decline in trading securities balances somewhat offset by an increase in the investment securities portfolio.

For purposes of computing yields and the net interest margin, FHN adjusts net interest income to reflect tax exempt income on an equivalent pre-tax basis which provides comparability of net interest income arising from both taxable and tax-exempt sources. The consolidated net interest margin was 2.97 percent in third quarter 2014 and 2013, as declining rates on deposits offset declining loan yields. The net interest spread was 2.85 percent in third quarter 2014, up 2 basis points from 2.83 percent in third quarter 2013. The impact of free funding was 12 basis points in third quarter 2014 down from 14 basis points in third quarter 2013. For the nine months ended September 30, 2014, the net interest margin was 2.94 percent, down from 2.96 percent for the comparable period in 2013. The decline in net interest margin for the nine month period of 2014 was primarily driven by lower yielding commercial loans, run-off of the non-strategic loan portfolios, and lower balances of loans to mortgage companies, somewhat offset by improved pricing on deposits.

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**Table 1 Net Interest Margin**

| | Three Months Ended September 30 | |
|---|---|---|
| | **2014** | 2013 |
| **Assets:** | | |
| Earning assets: | | |
| Loans, net of unearned income: | | |
| Commercial loans | **3.51%** | 3.69% |
| Retail loans | **4.01** | 4.06 |
| Total loans, net of unearned income | **3.70** | 3.85 |
| Loans held-for-sale | **4.09** | 3.23 |
| Investment securities: | | |
| U.S. treasuries | **0.07** | 0.09 |
| U.S. government agencies | **2.56** | 2.56 |
| States and municipalities (a) | **2.50** | 0.55 |
| Other | **4.04** | 4.20 |
| Total investment securities | **2.61** | 2.63 |
| Trading securities | **3.00** | 3.01 |
| Other earning assets: | | |
| Federal funds sold | **0.98** | 1.01 |
| Securities purchased under agreements to resell (b) | **(0.22)** | (0.11) |
| Interest bearing cash | **0.19** | 0.21 |
| Total other earning assets | **(0.06)** | 0.07 |
| Interest income / total earning assets | **3.33%** | 3.41% |
| **Liabilities:** | | |
| Interest-bearing liabilities: | | |
| Interest-bearing deposits: | | |
| Savings | **0.16%** | 0.20% |
| Other interest-bearing deposits | **0.08** | 0.09 |
| Time deposits | **.90** | 1.55 |
| Total interest-bearing core deposits | **0.19** | 0.29 |
| Certificates of deposit $100,000 and more (c) | **0.59** | 1.11 |
| Federal funds purchased | **0.25** | 0.25 |
| Securities sold under agreements to repurchase | **0.06** | 0.13 |
| Capital markets trading liabilities | **2.41** | 2.41 |
| Other short-term borrowings | **0.20** | 0.39 |
| Term borrowings | **2.25** | 2.03 |

| | | |
|---|---|---|
| Interest expense / total interest-bearing liabilities | **0.48** | 0.58 |
| **Net interest spread** | **2.85%** | 2.83% |
| Effect of interest-free sources used to fund earning assets | **0.12** | 0.14 |
| **Net interest margin (d)** | **2.97%** | 2.97% |

Certain previously reported amounts have been reclassified to agree with current presentation.

(a) 2014 increase driven by the yield on a held-to-maturity ( HTM ) municipal bond.
(b) Driven by negative market rates on reverse repurchase agreements.
(c) 2014 rate includes the effect of amortizing the valuation adjustment for acquired time deposits related to the MNB acquisition.
(d) Calculated using total net interest income adjusted for FTE assuming a statutory federal income tax rate of 35 percent and, where applicable, state income taxes.

FHN s net interest margin is expected to remain under pressure during the remainder of 2014 as FHN expects interest rates to remain at historically low levels which will result in continued pressure on yields in the loan portfolios. Additionally changes to the balance sheet mix associated with Fed, trading inventory and deposit balances could also affect NIM during the remainder of 2014.

**PROVISION FOR LOAN LOSSES**

The provision for loan losses is the charge to earnings that management determines to be necessary to maintain the ALLL at a sufficient level reflecting management s estimate of probable incurred losses in the loan portfolio. The provision for loan losses was $6.0 million in third quarter 2014 compared to $10.0 million in third quarter 2013. Provision expense for third quarter 2014 was $.9

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million for the commercial portfolio compared to a provision credit of $3.5 million a year ago while provision expense associated with the consumer portfolio was $5.1 million in 2014 compared to $13.5 million in 2013. Performance within the commercial and consumer portfolios remained strong and the consumer provision was also favorably affected by run-off within the non-strategic component of the portfolio.

For the nine months ended September 30, 2014 and 2013, the provision for loan losses was $21.0 million and $40.0 million, respectively. The net provision credit associated with the commercial portfolio narrowed to $4.2 million for the nine months ended September 30, 2014 from $7.5 million for the same period of 2013 reflecting strong performance along with historically low net charge-off levels. Provision expense for the nine months ended September 30, 2014 for the consumer portfolio was $25.2 million compared to $47.5 million in 2013. The decrease in provision was largely driven by the non-strategic component of consumer real estate as balances run-off and performance stabilized. This decrease was partially offset by higher provision associated with the refinement of the reserving process for the smaller-balance credit card portfolio in the first half of 2014 and higher delinquencies and net charge-offs in that portfolio from a year ago. For additional information about general asset quality trends refer to Asset Quality Trend Analysis of Third Quarter 2014 Compared to Third Quarter 2013 in this MD&A.

## NONINTEREST INCOME

Noninterest income (including securities gains) was $157.8 million in third quarter 2014 and represented 50 percent of total revenue compared to $150.5 million in third quarter 2013 and 49 percent of total revenue. The increase in noninterest income in third quarter 2014 relative to third quarter 2013 was primarily due to an increase in mortgage banking income and income from brokerage, management fees, and commissions, partially offset by a decline in capital markets fixed income revenue. For the nine months ended September 30, 2014 and 2013, noninterest income (including securities gains) was $430.5 million and $449.5 million, respectively, and represented 48 percent of total revenue in both periods. Noninterest income declined in the nine months ended September 30, 2014, primarily due to lower capital markets fixed income revenue, a loss on the extinguishment of debt and a decrease in income from deposit transactions and cash management, somewhat offset by increases in mortgage banking income, income from brokerage, management fees, and commissions, securities gains, and bankcard income.

### Capital Markets Noninterest Income

Capital markets noninterest income declined 26 percent and 28 percent during the three and nine months ended September 30, 2014 to $47.6 million and $152.1 million, respectively. Revenue from fixed income sales was down in both periods reflecting less favorable market conditions in 2014 relative to the prior year due to low rates, low market volatility and uncertainty around the Fed s monetary policy. Revenue from other products decreased $3.5 million to $6.4 million in third quarter 2014, and decreased $11.0 million to $20.8 million during the nine months ended September 30, 2014, due primarily to a decrease in revenues from loan trading and related activities. Other products revenue for the nine months ended September 30, 2013, also included a $3.5 million gain from the reversal of previously established LOCOM valuation adjustments associated with TRUP loan payoffs within the Non-strategic segment.

### Table 2 Capital Markets Noninterest Income

| | Three Months Ended September 30 | Nine Months Ended September 30 |
|---|---|---|

| *(Dollars in thousands)* | **2014** | 2013 | Percent Change | **2014** | 2013 | Percent Change |
|---|---|---|---|---|---|---|
| **Noninterest income:** | | | | | | |
| Fixed income | **$ 41,216** | $ 54,428 | (24)% | **$ 131,287** | $ 180,916 | (27)% |
| Other product revenue | **6,373** | 9,855 | (35)% | **20,822** | 31,795 | (35)% |
| Total capital markets noninterest income | **$ 47,589** | $ 64,283 | (26)% | **$ 152,109** | $ 212,711 | (28)% |

**Mortgage Banking Noninterest Income**

Mortgage banking income increased $27.1 million to $41.6 million in third quarter 2014 from $14.5 million in third quarter 2013. During the nine months ended September 30, 2014, mortgage banking income increased $40.0 million to $69.4 million. Mortgage banking income has been primarily comprised of servicing income related to legacy mortgage banking operations and fair value adjustments to the mortgage warehouse. In third quarter 2014, FHN sold approximately $315 million in UPB of HFS mortgage loans, which resulted in a $39.7 million gain recorded in mortgage banking income. In third quarter 2013, FHN signed a definitive agreement to sell substantially all remaining legacy mortgage servicing, with the sales occurring primarily in fourth quarter 2013 and first quarter 2014 which resulted in substantially diminished fees from mortgage servicing.

The increase in mortgage banking income during third quarter 2014 relative to third quarter 2013 was primarily due to the gains on the sales of HFS mortgage loans previously mentioned. Servicing income, which included fees for servicing mortgage loans, changes in the value of servicing assets, results of hedging servicing assets, and the negative impact of runoff on the value of MSR, was historically the largest component of mortgage banking income. In third quarter 2013, total servicing income was $17.8 million and was comprised of $12.9 million of net hedging results and $10.9 million of servicing fees, partially offset by $6.0 million of negative impact to the value of MSR that was attributable to runoff. Net hedging results in 2013 were primarily due to the mark to the terms of the mortgage servicing sales agreement. Servicing income in third quarter 2014 was not material because of the servicing sales.

The increase in mortgage banking income during the nine months ended September 30, 2014 relative to the same period of 2013 was primarily due to the gain on the sale of HFS mortgage loans and positive fair value adjustments to the mortgage warehouse in second quarter reflecting new information on market pricing for similar assets primarily related to the non-performing portion of the HFS portfolio, partially offset by a $2.0 million loss associated with the deconsolidation of a securitization trust. During the nine months ended September 30, 2013, total servicing income was $34.6 million and was comprised of $35.3 million of servicing fees and $16.3 million of net hedging results, partially offset by $17.0 million of negative impact to the value of MSR that was attributable to runoff. Servicing income in 2014 primarily relates to the receipt of approximately $20 million in previously unrecognized servicing fees in conjunction with the servicing sales.

**Table 3 Mortgage Banking Noninterest Income**

| | Three Months Ended September 30 | | Percent | Nine Months Ended September 30 | | Percent |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | Change | **2014** | 2013 | Change |
| **Noninterest income *(thousands)*:** | | | | | | |
| Origination income | **$** | $ 293 | NM | **$** | $ 690 | NM |
| Mortgage warehouse valuation (a) | **41,287** | (1,441) | NM | **50,545** | (3,636) | NM |
| Servicing income/(expense): | | | | | | |
| Servicing fees (b) | **234** | 10,854 | (98)% | **20,901** | 35,265 | (41)% |
| Change in MSR value runoff | **(46)** | (5,989) | 99% | **(760)** | (16,980) | 96% |
| Net hedging results (c) | **86** | 12,935 | (99)% | **613** | 16,275 | (96)% |
| Total servicing income | **274** | 17,800 | (98)% | **20,754** | 34,560 | (40)% |
| Other (d) | **(2)** | (2,192) | NM | **(1,850)** | (2,192) | 16% |
| Total mortgage banking noninterest income | **$ 41,559** | $ 14,460 | NM | **$ 69,449** | $ 29,422 | NM |

| | As of September 30 | | Percent |
|---|---|---|---|
| | **2014** | 2013 | Change |
| **Mortgage banking statistics *(millions)*:** | | | |
| Servicing portfolio owned (first lien mortgage loans) (e) | **$ 110** | $ 13,784 | (99)% |

(a) Three and nine months ended September 30, 2014, include $39.7 million in gains on the sales of HFS mortgage loans. Nine months ended September 30, 2014, also includes $8.2 million of positive fair value adjustments primarily related to the non-performing portion of the HFS portfolio.

(b) Nine months ended September 30, 2014, represents previously unrecognized servicing fees received in conjunction with the servicing sale.
(c) Three and nine months ended September 30, 2013, include an increase in net hedging results driven by the terms of the mortgage servicing sale agreement.
(d) Three and nine months ended September 30, 2013, include a negative adjustment as a result of estimated costs for obligations associated with the agreement to sell servicing.
(e) Excludes foreclosed assets.

**Deposit Transactions and Cash Management**

For the three and nine months ended September 30, 2014, deposit transactions and cash management income declined 3 percent to $28.5 million and $82.9 million, respectively. The decrease in both periods was primarily the result of lower cash management fees on commercial deposit products due to price reductions and discounting resulting from increased market competitive price pressure and overall lower managed balances. Additionally, for the nine months ended September 30, 2014, non-sufficient funds ( NSF ) fee income decreased which was influenced by a refinement in sort order processes and by overall changes in consumer behavior.

**Securities Gains/Losses**

In third quarter 2014, FHN recognized net securities losses of $.9 million which was primarily the result of a loss on the sale of an investment. During the nine months ended September 30, 2014, FHN recognized net securities gains of $2.9 million, as a $5.6 million gain on the sale of a cost method investment in first quarter 2014 more than offset $2.0 million of negative fair value adjustments related to an investment and the $.9 million loss on the sale previously mentioned. Securities gains for the three and nine months ended September 30, 2013 were not material.

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**Other Noninterest Income**

Brokerage, management fees and commissions were $12.3 million and $37.5 million for the three and nine months ended September 30, 2014, up 13 percent and 22 percent, respectively, from $10.9 million and $30.8 million for the three and nine months ended September 30, 2013. The increase in brokerage, management fees and commissions in both periods was due in large part to FHN s strategic focus on growing these businesses with new products and offerings, an expanded sales force, and a refined advisory team strategy. During third quarter 2014, all other income and commissions decreased to $9.1 million from $11.6 million in third quarter 2013, primarily driven by a $2.2 million decrease in deferred compensation income, which is driven by changes in the market value of the underlying investments.

During the nine months ended September 30, 2014, bankcard income increased 16 percent to $18.0 million primarily related to $2.8 million of Visa volume incentives recognized in second quarter 2014. For the nine months ended September 30, 2014, all other income and commissions decreased to $23.3 million from $31.0 million in the respective period of 2013, primarily driven by a $4.4 million loss on the extinguishment of debt associated with the collapse of two HELOC securitization trusts recognized in first quarter 2014 and a $1.7 million decrease in deferred compensation income. The following table provides detail regarding FHN s other income.

**Table 4 Other Income**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **2014** | 2013 | **2014** | 2013 |
| **Other income:** | | | | |
| ATM interchange fees | **$ 2,739** | $ 2,680 | **$ 7,982** | $ 7,691 |
| Electronic banking fees | **1,560** | 1,607 | **4,629** | 4,754 |
| Letter of credit fees | **917** | 1,171 | **3,753** | 3,866 |
| Gain/(loss) on repurchases of debt | | | **(4,350)** | |
| Deferred compensation | **(41)** | 2,160 | **1,800** | 3,475 |
| Other | **3,971** | 3,996 | **9,461** | 11,230 |
| Total | **$ 9,146** | $ 11,614 | **$ 23,275** | $ 31,016 |

**NONINTEREST EXPENSE**

Total noninterest expense decreased 43 percent or $187.4 million to $246.2 million in third quarter 2014, primarily driven by declines in expenses associated with the repurchase and foreclosure provision and personnel expenses, partially offset by an increase in litigation expenses.

During the three and nine months ended September 30, 2014, FHN recorded a $4.3 million reversal of repurchase and foreclosure provision compared to expense of $200.0 million for the three and nine months ended September 30, 2013. The expense reversal in third quarter 2014 relates to the settlement of certain repurchase claims, and the $200.0 million expense recorded in third quarter 2013 stems from the resolution of certain legacy representations and warranty mortgage loan repurchase obligations to a government-sponsored entity.

Employee compensation, incentives, and benefits (personnel expense), which is generally the largest component of noninterest expense, declined $11.5 million to $120.7 million in third quarter 2014. The decrease in personnel expenses relative to third quarter 2013 was driven by a decline in variable compensation associated with lower fixed income sales revenue.

During third quarter 2014, contract employment expenses decreased 44 percent, or $4.0 million, to $5.2 million in third quarter 2014, due to lower mortgage sub-servicing costs associated with the sales of servicing, but partially offset by increases in contract employment associated with technology-related projects within the regional bank. Additionally, legal and professional fees declined $2.2 million to $10.5 million in third quarter 2014 primarily driven by legal matters in the prior year, partially offset by an increase in professional fees related to various consulting projects in 2014, and FDIC premium expense decreased $1.2 million to $3.5 million in third quarter 2014.

In third quarter 2014, total other expense increased $39.0 million to $61.6 million from $22.6 million in third quarter 2013. The increase in other expense is due to $50.4 million in loss accruals related to legal matters, partially offset by $15.0 million of expense reversals associated with agreements with insurance companies for the recovery of expenses FHN incurred related to litigation losses in previous periods. Additionally, in third quarter 2014, FHN recorded $3.2 million of negative valuation adjustments associated with derivatives related to prior sales of Visa class B shares, compared to $.9 million in third quarter 2013.

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For the nine months ended September 30, 2014, total noninterest expense decreased 30 percent or $269.8 million to $631.7 million. The decline in expenses was largely driven by a decline in repurchase and foreclosure provision expense previously mentioned, as well as declines in personnel and contract employment expenses.

Personnel expense declined 11 percent, or $42.3 million during the nine months ended September 30, 2014, to $359.6 million. The decrease in personnel expenses in 2014 relative to the nine months ended September 30, 2013, is largely driven by a decline in variable compensation associated with lower fixed income sales revenue and headcount reductions compared to the prior year, as well as several small favorable adjustments related to employee performance equity awards, employee benefits plans, and BOLI deferred compensation benefits.

For the nine months ended September 30, 2014, contract employment expenses declined $12.0 million to $14.8 million consistent with the reasons driving the quarterly decline described above. FDIC premium expense and legal and professional fees declined $7.1 million and $6.3 million to $8.6 million and $31.7 million, respectively, during the nine months September 30, 2014 relative to the same period of 2013. The decline in FDIC premium expense was due in part to $3.3 million of FDIC premium refunds received in second quarter, and the decline in legal and professional fees was largely driven by an $8.5 million legal fee expense reversal associated with the Sentinel legal matter in second quarter 2014.

These decreases were partially offset by increases in occupancy, computer software, and advertising expenses. Occupancy expense increased $4.2 million to $41.9 million during the nine months ended September 30, 2014, which was largely the result of $4.7 million of lease abandonment expense related to efficiency initiatives. Computer software increased $2.2 million to $32.4 million during the nine months ended September 30, 2014 relative to the prior year driven by a focus on technology-related projects. Advertising expense also increased $1.1 million to $14.6 million during the nine months ended September 30, 2014.

All other expenses were $66.4 million and $68.8 million for the nine months ended September 30, 2014 and 2013, respectively. The decrease in all other expenses was primarily due to a $9.0 million decline in losses from litigation and regulatory matters due to $110.9 million of loss accruals related to legal matters, partially offset by $113.6 million of expense reversals associated with agreements with insurance companies for the recovery of expenses FHN incurred related to litigation losses in previous periods, partially offset by a $4.2 million increase in negative valuation adjustments associated with the derivatives related to prior sales of Visa Class B shares. The following table provides detail regarding FHN s other expense.

**Table 5 Other Expense**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **2014** | 2013 | **2014** | 2013 |
| **Other expense:** | | | | |
| Litigation and regulatory matters (a) | **$ 35,390** | $ 229 | **$ (2,720)** | $ 6,299 |
| Other insurance and taxes | **3,909** | 3,215 | **10,178** | 9,337 |
| Tax credit investments | **2,481** | 3,079 | **8,008** | 9,040 |
| Travel and entertainment | **2,164** | 2,400 | **6,633** | 6,620 |
| Customer relations | **1,406** | 1,204 | **4,329** | 3,737 |
| Employee training and dues | **1,194** | 1,244 | **3,260** | 3,727 |
| Supplies | **779** | 950 | **2,699** | 2,710 |

| | | | | |
|---|---|---|---|---|
| Miscellaneous loan costs | **597** | 1,349 | **2,150** | 3,508 |
| Other | **13,709** | 8,961 | **31,856** | 23,775 |
| Total | **$ 61,629** | $ 22,631 | **$ 66,393** | $ 68,753 |

(a) Three and nine months ended September 30, 2014, includes $50.4 million and $110.9 million, respectively, of loss accruals related to legal matters, partially offset by $15.0 million and $113.6 million, respectively, of expense reversals associated with agreements with insurance companies for the recovery of expenses FHN incurred related to litigation losses in previous periods.

**INCOME TAXES**

FHN recorded an income tax provision of $15.4 million in third quarter 2014 on net pre-tax income, compared to an income tax benefit of $31.1 million in third quarter 2013 based on the loss from continuing operations. During the nine months ended September 30, 2014, FHN recorded an income tax provision of $66.2 million based on pre-tax income compared to an income tax provision of $1.6 million for the first nine months of 2013 based on losses from continuing operations. The effective tax rate for the quarters ended September 30, 2014 and 2013 was approximately 24 percent and 23 percent respectively. The company s effective tax rate is favorably affected by recurring items such as affordable housing credits, bank-owned life insurance and tax-exempt income. The company s effective tax rate also may be affected by items that may occur in any given period but are not consistent from period to period, such as changes in the deferred tax asset valuation allowance and changes in unrecognized tax benefits.

A deferred tax asset ( DTA ) or deferred tax liability ( DTL ) is recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax consequence is calculated by applying enacted statutory tax rates, applicable to future years, to these temporary differences. As of September 30, 2014, FHN s gross DTA (net of a valuation allowance) and gross DTL were $336.2 million and $80.6 million, respectively, resulting in a net DTA of $255.7 million at September 30, 2014, compared with $306.1 million at September 30, 2013.

In order to support the recognition of the DTA, FHN s management must conclude that the realization of the DTA is more likely than not. FHN evaluates the likelihood of realization of the DTA based on both positive and negative evidence available at the time, including (as appropriate) scheduled reversals of DTLs, projected future taxable income, tax planning strategies, and recent financial performance. Realization is dependent on generating sufficient taxable income prior to the expiration of the carryforwards attributable to the DTA. In projecting future taxable income, FHN incorporates assumptions including the amount of future state and federal pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates used to manage the underlying business.

As of September 30, 2014, FHN had federal tax credit carryforwards which will expire in varying amounts between 2030 and 2034, state income tax net operating loss ( NOL ) carryforwards which will expire in varying amounts between 2016 and 2032, and federal capital loss carryforwards, which will expire in 2017. As of September 30, 2014 and 2013, FHN established a valuation allowance of $4.1 million and $12.6 million, respectively, against its state NOL carryforwards and $45.0 million and $51.7 million, respectively, against its capital loss carryforwards. FHN s DTA after valuation allowance was $336.2 million and $306.1 million as of September 30, 2014 and 2013, respectively. Based on current analysis, FHN believes that its ability to realize the remaining DTA is more likely than not. FHN monitors its DTA and the need for a valuation allowance on a quarterly basis. A significant adverse change in FHN s taxable earnings outlook could result in the need for further valuation allowances. In the event FHN is able to determine that the deferred tax assets are realizable in the future in excess of their net recorded amount, FHN would make an adjustment to the valuation allowance, which would reduce the provision for income taxes.

Changes in tax laws and rates could also affect recorded DTAs and DTLs in the future. Management is not aware of the enactment of any such changes that would have a material effect on the company s results of operations, cash flows or financial position.

**RESTRUCTURING, REPOSITIONING, AND EFFICIENCY INITIATIVES**

FHN continues to refine its business mix in order to focus on higher-return core businesses and explore opportunities to reduce operating costs.

Generally, restructuring, repositioning, and efficiency charges related to exited businesses are included in the non-strategic segment while charges related to corporate-driven actions are included in the corporate segment. The net charge from restructuring, repositioning, and efficiency activities was $1.0 million in third quarter 2014 compared to $3.4 million in third quarter 2013. For the nine months ended September 30, 2014 and 2013, net charges were $7.4 million and $4.5 million, respectively. The nine months ended September 30, 2014 includes $4.7 million of lease abandonment expense and $2.5 million of severance-related costs. Restructuring and repositioning expense in 2013 included $2.6 million of severance-related costs and $2.2 million of estimated costs for obligations associated with the agreement to sell substantially all remaining legacy mortgage servicing which is reflected in Mortgage banking income.

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Charges related to restructuring, repositioning, and efficiency initiatives for the three and nine months ended September 30, 2014 and 2013, are presented in the following table based on the income statement line item affected. See Note 18 Restructuring, Repositioning, and Efficiency for additional information.

**Table 6 Restructuring, Repositioning, and Efficiency Initiatives**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **2014** | 2013 | **2014** | 2013 |
| **Noninterest income:** | | | | |
| Mortgage banking | **$** | $ (2,192) | **$ 9** | $ (2,192) |
| Gain on divestiture | | 115 | | 115 |
| Total noninterest income/(loss) | | (2,077) | **9** | (2,077) |
| **Noninterest expense:** | | | | |
| Employee compensation, incentives, and benefits | **926** | 1,160 | **2,495** | 2,620 |
| Occupancy | **49** | 38 | **4,657** | 416 |
| All other expense | | 369 | **222** | 369 |
| Total noninterest expense | **975** | 1,567 | **7,374** | 3,405 |
| Income/(loss) before income taxes | **(975)** | (3,644) | **(7,365)** | (5,482) |
| Income/(loss) from discontinued operations | | 250 | | 985 |
| Net impact resulting from restructuring, repositioning, and efficiency initiatives | **$ (975)** | $ (3,394) | **$ (7,365)** | $ (4,497) |

## STATEMENT OF CONDITION REVIEW

Total period-end assets were $24.0 billion on September 30, 2014, compared to $23.9 billion on September 30, 2013, and $23.8 billion on December 31, 2013. Average assets for the third quarter of 2014 decreased to $23.8 billion from $24.2 billion a year ago and were relatively flat compared to total average assets during fourth quarter 2013. The decline in average assets from a year ago is primarily attributable to a decline in non-earning assets which more than offset an increase in earning assets.

### EARNING ASSETS

Earning assets consist of loans, loans HFS, investment securities, and other earning assets such as trading securities and interest-bearing cash. Average earning assets increased to $21.7 billion in 2014 from $21.5 billion a year earlier and increased by $412.5 million from fourth quarter 2013. A more detailed discussion of the major line items follows. Unless otherwise indicated, references below to balances for 2013 refer to period-end balances at September 30, 2013, or average balances for the third quarter of 2013 rather than period-end December 31, 2013, or average for the year 2013 or another period within 2013.

#### Loans

Period-end loans increased to $15.8 billion as of September 30, 2014 from $15.4 billion on both September 30, 2013 and December 31, 2013. Average loans for third quarter 2014 were $15.8 billion compared to $15.7 billion for third quarter 2013 and $15.3 billion for fourth quarter 2013. The increase in both period-end and average loan balances was due to loan growth within the regional bank which more than offset balance declines within FHN s run-off portfolios within the non-strategic segment. Loan growth was largely within the regional bank s commercial portfolios while the decline in balances within non-strategic were largely within the consumer real estate and permanent mortgage portfolios. Loan balance trends between third quarter 2014 and fourth quarter 2013 were generally consistent with those described above, with the exception that average commercial loans increased more significantly because of a fourth quarter drop in average loans to mortgage companies.

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**Table 7 Average Loans**

| | **September 30, 2014** | | September 30, 2013 | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | **Amount** | **Percent of total** | Amount | Percent of total | Amount | Percent of total | 9/30/2014 changes vs 9/30/2013 | 9/30/2014 changes vs 12/31/2013 |
| Commercial: | | | | | | | | |
| Commercial, financial, and industrial | **$ 8,395,553** | **53%** | $ 7,888,297 | 50% | $ 7,694,029 | 50% | 6% | 9% |
| Commercial real estate | **1,260,715** | **8** | 1,215,586 | 8 | 1,164,748 | 8 | 4% | 8% |
| Total commercial | **9,656,268** | **61** | 9,103,883 | 58 | 8,858,777 | 58 | 6% | 9% |
| Retail: | | | | | | | | |
| Consumer real estate (a) | **5,173,088** | **33** | 5,502,825 | 35 | 5,400,751 | 35 | (6)% | (4)% |
| Permanent mortgage (b) | **581,876** | **4** | 721,554 | 5 | 678,938 | 5 | (19)% | (14)% |
| Credit card, OTC and other | **352,133** | **2** | 323,551 | 2 | 334,887 | 2 | 9% | 5% |
| Total retail | **6,107,097** | **39** | 6,547,930 | 42 | 6,414,576 | 42 | (7)% | (5)% |
| Total loans, net of unearned | **$ 15,763,365** | **100%** | $ 15,651,813 | 100% | $ 15,273,353 | 100% | 1% | 3% |

(a) Balances as of September 30, 2014 and 2013, and December 31, 2013, include $83.0 million, $359.1 million, and $342.1 million of restricted and secured real estate loans, respectively.

(b) Balances as of September 30, 2013, and December 31, 2013, include $12.1 million, and $11.6 million of restricted and secured real estate loans, respectively.

C&I loans are the largest component of the commercial portfolio comprising 87 percent of average commercial loans in both third quarters 2014 and 2013, respectively. C&I loans increased 6 percent, or $507.3 million, from third quarter 2013, due to loan growth within the regional bank s general commercial portfolio and also an increase in asset-based lending. This loan growth was partially offset by a decline in C&I loans within the non-strategic segment which was driven by sales and payoffs of nonaccruing trust preferred loans since third quarter 2013. Commercial real estate loans increased 4 percent or $45.1 million to $1.3 billion in third quarter 2014 because of growth in expansion markets and opportunities with new and existing customers within the regional bank which outpaced the continual wind-down of the non-strategic components.

Average retail loans declined 7 percent, or $440.8 million from a year ago, to $6.1 billion in 2014. The consumer real estate portfolio (home equity lines and installment loans) declined $329.7 million, to $5.2 billion as the continued wind-down of portfolios within the non-strategic segment outpaced a $72.4 million increase in real estate installment loans from new originations within the regional bank. The permanent mortgage portfolio declined $139.7 million to $581.9 million in 2014 largely driven by runoff of the legacy assets. Credit Card, OTC, and Other increased $28.6 million to $352.1 million in 2014 due to strategic focus on growing the credit card and other consumer portfolios.

**Investment Securities**

FHN s investment portfolio consists principally of debt securities including government agency issued mortgage-backed securities ( MBS ) and government agency issued collateralized mortgage obligations ( CMO ), substantially all of which are classified as available-for-sale ( AFS ). FHN utilizes the securities portfolio as a source of income, liquidity and collateral for repurchase agreements for public funds, and as a tool for managing risk of interest rate movements. Average investment securities increased 12 percent from $3.2 billion during third quarter 2013 to $3.6 billion during third quarter 2014. Period-end investment securities were $3.5 billion on September 30, 2014 compared to $3.2 billion on September 30, 2013 and represented 16 percent and 15 percent of earning assets at the end of third quarters 2014 and 2013, respectively. The amount of securities purchased for the investment portfolio is largely driven by the desire to protect the value of non-rate sensitive liabilities and equity and maximize yield on FHN s excess liquidity without negatively affecting future yields while operating in this historically low interest rate environment. See Note 3 Investment Securities for additional detail.

**Loans Held-for-Sale**

Loans HFS consists of the mortgage warehouse (primarily repurchased government-guaranteed loans), student, small business, and home equity loans. The average balance of loans HFS decreased $59.5 million from 2013 and averaged $318.7 million in 2014. On September 30, 2014 and 2013, loans HFS were $151.9 million and $371.6 million, respectively. The lower balances of both average and period-end loans HFS reflect the third quarter 2014 sales of loans with approximately $315 million in unpaid principal balance.

**Other Earning Assets**

All other earning assets include trading securities, securities purchased under agreements to resell, federal funds sold ( FFS ), and interest-bearing deposits with the Federal Reserve Bank ( FRB ) and other financial institutions. All other earning assets averaged $2.0 billion in 2014 compared to $2.3 billion in 2013, primarily driven by a $249.4 million decrease in interest-bearing cash and a

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$102.5 million decrease in capital markets securities inventory. Capital markets trading inventory fluctuates daily based on customer demand. The average balance of securities purchased under agreements to resell ( asset repos ) increased $50.0 million to $644.0 million for the third quarter 2014. Asset repos are used in capital markets fixed income trading activity and generally correlate with the level of capital markets trading liabilities (short-positions) as securities collateral from repo transactions are used to fulfill trades.

For both periods ended September 30, 2014 and 2013, other earning assets were $2.2 billion.

Non-earning assets averaged $2.1 billion in third quarter 2014, a 20 percent decline from $2.6 billion in third quarter 2013. The decline in non-earning assets is primarily due to declines in servicing advances and MSR due to the sales of substantially all remaining legacy mortgage servicing in fourth quarter 2013 and first quarter 2014, as well as a decline in derivative assets. Additionally, tax and capital markets receivables contributed to a $66.0 million decline in average non-earning assets. As of the periods ended September 30, 2014 and 2013, non-earning assets were $2.3 billion and $2.7 billion, respectively. The decrease in period-end balances was consistent with those described above with the exception that capital markets receivables increased by $114.4 million on a period-end basis.

**Core Deposits**

Average core deposits declined $607.1 million to $15.4 billion in 2014 from $16.0 billion in 2013. Period-end core deposits were relatively flat between the periods at $15.7 billion. The decrease in average core deposits was primarily driven by FHN s decision to decrease Promontory insured deposits. Promontory is a network offering an FDIC-insured deposit sweep program where financial institutions can receive unsecured deposits for the long-term (several years) and in larger-dollar increments.

**Short-Term Funds**

Average short-term funds (certificates of deposit greater than $100,000, federal funds purchased ( FFP ), securities sold under agreements to repurchase, trading liabilities, and other short-term borrowings) increased $606.6 million to $3.6 billion for the third quarter 2014. The increase was driven by higher levels of borrowings from the Federal Home Loan Bank ( FHLB ), partially offset by declines in jumbo certificates of deposits, FFP, and securities sold under agreements to repurchase. The increased level of FHLB borrowings was primarily because of deposit fluctuations combined with loan growth. Average FFP, which currently is composed primarily of funds from correspondent banks, was $1.0 billion in 2014 compared to $1.1 billion in 2013. FFP fluctuates depending on the amount of excess funding of FHN s correspondent bank customers while capital markets trading liabilities fluctuate based on expectations of customer demand. On average, short-term purchased funds accounted for 18 percent of FHN s funding (core deposits plus short-term purchased funds and term borrowings) in third quarter 2014 compared to 14 percent in 2013. Period-end short-term funds increased $221.3 million from $3.0 billion on September 30, 2013 to $3.2 billion on September 30, 2014. The increase in period-end balances reflects higher FHLB borrowings which more than offset lower FFP, jumbo CD s, and trading liabilities.

**Term Borrowings**

Term borrowings include senior and subordinated borrowings and advances with original maturities greater than one year. Term borrowings were $1.5 billion compared to $1.8 billion as of September 30, 2014 and 2013, respectively. Average balances for both third quarter periods were the same as period-end. The decrease in both the average and period-end balance of term borrowings primarily relates to a decline in restricted/secured borrowings due to the collapse/deconsolidation of three previously consolidated on-balance sheet consumer loan securitizations in first quarter 2014.

**Non Interest-bearing Liabilities**

Average non interest-bearing liabilities declined $244.2 million from third quarter 2013 to $635.2 million in 2014. The largest declines were within the pension fund liability driven by changes resulting from the annual measurement between 2013 and 2014, the repurchase and foreclosure reserve due to charge-offs against the liability since last year, derivative liabilities, and capital markets payables. Period-end non interest-bearing liabilities increased $8.6 million to $999.1 million on September 30, 2014 from a year earlier. The declines described above that affected the average balances also affected period-end balances with the exception of a $276.2 million increase in period-end capital markets payables and a $45.4 million increase in other accrued liabilities mainly because of litigation accruals. Capital markets payables can fluctuate at any given time based on the level of pending unsettled trades.

## CAPITAL

Management s objectives are to provide capital sufficient to cover the risks inherent in FHN s businesses, to maintain excess capital to well-capitalized standards, and to assure ready access to the capital markets. Average equity was $2.6 billion in third quarter 2014 compared to $2.5 billion in third quarter 2013. Average equity increased between periods primarily due to the impact of net income on retained earnings and a favorable decline in the effects of pensions within other comprehensive income. Period-end equity was $2.6 billion on September 30, 2014 compared to $2.4 billion on September 30, 2013, and was driven by the same factors mentioned above, partially offset by shares that were repurchased under the 2014 share repurchase program mentioned below.

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In fourth quarter 2011, FHN launched a share repurchase program which enabled FHN to repurchase its common stock in the open market or in privately negotiated transactions, subject to certain conditions. As of December 31, 2013, this program had authorized total purchases of up to $300 million and FHN had repurchased $262.7 million of common shares under this program. In January 2014, FHN s board of directors terminated this share repurchase program and approved a new share repurchase program which enables FHN to repurchase its common stock in the open market or in privately negotiated transactions, again subject to certain conditions. The current program authorizes total purchases of up to $100 million and expires on January 31, 2016. During third quarter 2014, FHN repurchased $24.0 million of common shares under this program.

The following tables provide a reconciliation of Shareholder s equity from the Consolidated Condensed Statements of Condition to Tier 1 and Total Regulatory Capital as well as certain selected capital ratios:

**Table 8 Regulatory Capital and Ratios**

| *(Dollars in thousands)* | **September 30, 2014** | September 30, 2013 | December 31, 2013 |
|---|---|---|---|
| Shareholders equity | **$ 2,326,510** | $ 2,137,862 | $ 2,205,320 |
| Regulatory adjustments: | | | |
| Goodwill and other intangibles | **(128,105)** | (132,517) | (133,013) |
| Net unrealized (gains)/losses on AFS securities | **(4,451)** | (11,164) | 11,228 |
| Minimum pension liability | **137,143** | 187,544 | 138,768 |
| Noncontrolling interest FTBNA preferred stock | **294,816** | 294,816 | 294,816 |
| Trust preferred | **200,000** | 200,000 | 200,000 |
| Disallowed servicing assets | **(252)** | (7,477) | (4,638) |
| Disallowed deferred tax assets | **(42,406)** | (113,485) | (93,399) |
| Other | **(108)** | (438) | (106) |
| Tier 1 capital | **$ 2,783,147** | $ 2,555,141 | $ 2,618,976 |
| Tier 2 capital | **338,212** | 449,100 | 444,655 |
| Total regulatory capital | **$ 3,121,359** | $ 3,004,241 | $ 3,063,631 |

| | **September 30, 2014** | | September 30, 2013 | | December 31, 2013 | |
|---|---|---|---|---|---|---|
| | **Ratio** | **Amount** | Ratio | Amount | Ratio | Amount |
| **Tier 1** | | | | | | |
| First Horizon National Corporation | 14.47% | $ 2,783,147 | 13.28% | $ 2,555,141 | 13.87% | $ 2,618,976 |
| First Tennessee Bank National Association (a) | 16.57 | 3,159,633 | 15.33 | 2,922,639 | 15.99 | 2,991,866 |
| **Total** | | | | | | |
| First Horizon National Corporation | 16.22 | 3,121,359 | 15.62 | 3,004,241 | 16.23 | 3,063,631 |
| First Tennessee Bank National Association (a) | 18.34 | 3,495,706 | 17.67 | 3,369,679 | 18.36 | 3,434,410 |
| **Tier 1 Common** (b) | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| First Horizon National Corporation | 11.40 | 2,192,707 | 10.21 | 1,964,701 | 10.75 | 2,028,536 |

(a) Excluding financial subsidiaries, FTBNA s Tier 1 and Total Capital ratios were 16.46 percent and 17.30 percent, respectively, at September 30, 2014.
(b) Refer to the Non-GAAP to GAAP Reconciliation Table 23.

Banking regulators define minimum capital ratios for bank holding companies and their bank subsidiaries. Based on the capital rules and definitions prescribed by the banking regulators, should any depository institution s capital ratios decline below predetermined levels, it would become subject to a series of increasingly restrictive regulatory actions. The system categorizes a depository institution s capital position into one of five categories ranging from well-capitalized to critically under-capitalized. In 2014, for an institution the size of FHN to qualify as well-capitalized, Tier 1 Capital, Total Capital, and Leverage capital ratios must be at least 6 percent, 10 percent, and 5 percent, respectively. As of September 30, 2014, FHN and FTBNA had sufficient capital to qualify as well-capitalized institutions. Capital ratios increased in third quarter 2014 relative to third quarter 2013 primarily due to the impact of net income less dividends on retained earnings and a favorable decline in the regulatory adjustment for disallowed DTAs. The Total Capital ratios for both FHN and FTBNA were negatively impacted by a reduction in the amount of Tier 2 qualifying subordinated debt as that debt approaches maturity. Through 2014, capital ratios are expected to remain strong and significantly above current well-capitalized standards. Refer to the discussion of rules that will impact capital ratios for the industry in the Market Uncertainties and Prospective Trends section of MD&A.

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Pursuant to board authority, FHN may repurchase shares of its common stock from time to time and will evaluate the level of capital and take action designed to generate or use capital, as appropriate, for the interests of the shareholders, subject to legal and regulatory restrictions. FHN s board has not authorized a preferred stock purchase program. The following tables provide information related to securities repurchased by FHN during third quarter 2014:

**Table 9 Issuer Purchases of Common Stock**

**Compensation Plan-Related Repurchase Authority:**

| *(Volume in thousands, except per share data)* | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced programs | Maximum number of shares that may yet be purchased under the programs |
|---|---|---|---|---|
| **2014** | | | | |
| July 1 to July 31 | | N/A | | 31,354 |
| August 1 to August 31 | 1 | $ 11.69 | 1 | 31,354 |
| September 1 to September 30 | | N/A | | 31,354 |
| **Total** | **1** | **$ 11.69** | **1** | |

N/A - Not applicable

Compensation Plan Programs:

A consolidated compensation plan share purchase program was announced on August 6, 2004. This action consolidated into a single share purchase program all of the previously authorized compensation plan share programs as well as the renewal of the authorization to purchase shares for use in connection with two compensation plans for which the share purchase authority had expired. The total amount authorized under this consolidated compensation plan share purchase program, inclusive of a program amendment on April 24, 2006, is 29.6 million shares calculated before adjusting for stock dividends distributed through January 1, 2011. The authorization has been reduced for that portion which relates to compensation plans for which no options remain outstanding. The shares may be purchased over the option exercise period of the various compensation plans on or before December 31, 2023. On September 30, 2014, the maximum number of shares that may be purchased under the program was 31.4 million shares. Purchases may be made in the open market or through privately negotiated transactions and are subject to market conditions, accumulation of excess equity, prudent capital management, and legal and regulatory restrictions. Management currently does not anticipate purchasing a material number of shares under this authority during 2014.

**Other Repurchase Authority:**

*(Dollar values and volume in thousands, except per share data)*

| | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced programs | Maximum approximate dollar value that may yet be purchased under the programs |
|---|---|---|---|---|
| **2014** | | | | |
| July 1 to July 31 | | N/A | | $ 100,000 |
| August 1 to August 31 | 971 | $ 11.76 | 971 | $ 88,580 |
| September 1 to September 30 | 1,025 | 12.30 | 1,025 | $ 75,974 |
| **Total** | **1,996** | **$ 12.04** | **1,996** | |

N/A - Not applicable

Other Programs:

On January 22, 2014, FHN announced a $100 million share purchase authority that would expire on January 31, 2016. As of September 30, 2014, $24.0 million in purchases had been made under this authority at an average price per share of $12.02 excluding commissions. Purchases may be made in the open market or through privately negotiated transactions and will be subject to market conditions, accumulation of excess equity, prudent capital management, and legal and regulatory restrictions.

**ASSET QUALITY TREND ANALYSIS OF THIRD QUARTER 2014 COMPARED TO THIRD QUARTER 2013**

**Loan Portfolio Composition**

FHN groups its loans into portfolio segments based on internal classifications reflecting the manner in which the ALLL is established and how credit risk is measured, monitored, and reported. From time to time, and if conditions are such that certain subsegments are uniquely affected by economic or market conditions or are experiencing greater deterioration than other components of the loan portfolio, management may determine the ALLL at a more granular level. Commercial loans are composed of commercial, financial, and industrial ( C&I ) and commercial real estate ( CRE ). Retail loans are composed of consumer real estate; permanent mortgage; and credit card and other. FHN has a concentration of residential real estate loans (36 percent of total loans), the majority of which is in the consumer real estate portfolio (32 percent of total loans). Industry concentrations are discussed under the heading C&I below. Key asset quality metrics for each of these portfolios can be found in Table 12 Asset Quality by Portfolio.

As economic and real estate conditions develop, enhancements to underwriting and credit policies and guidelines may be necessary or desirable. Credit underwriting guidelines are outlined in Exhibit 13 to FHN s 2013 Annual Report on Form 10-K in the Loan Portfolio Composition discussion in the Asset Quality Section beginning on page 26 and continuing to page 33. FHN has recently adopted credit underwriting guidelines to enable a limited amount of non-recourse lending within the CRE portfolio. There were no other material changes to FHN s credit underwriting guidelines or significant changes or additions to FHN s product offerings in 2014.

On June 7, 2013, FHN acquired substantially all of the assets and liabilities of MNB from the FDIC. The acquisition included approximately $249 million of loans. These loans were initially recorded at fair value which incorporates expected credit losses in accordance with Accounting Standards Codification Topic related to Business Combinations ( ASC 805 ) resulting in no carryover of allowance for loan loss from the acquiree. See Note 4 Loans for additional information regarding the acquisition.

At acquisition, FHN designated certain loans as purchased credit-impaired ( PCI ) loans. PCI loans are loans that have experienced deterioration of credit quality between origination and the time of acquisition and for which the timely collection of the interest and principal is no longer reasonably assured. FHN considered several factors when determining whether a loan met the definition of a PCI loan at the time of acquisition including accrual status, loan grade, delinquency trends, prior charge-offs, as well as both originated versus refreshed credit scores and ratios when available. On September 30, 2014, the unpaid principal balance and the carrying value of PCI loans were $49.9 million and $37.3 million, respectively. These loans were initially recorded at fair value which was estimated by discounting expected cash flows at acquisition date. The expected cash flows include all contractually expected amounts and incorporate an estimate for future expected credit losses, pre-payment assumptions, and yield requirement for a market participant, among other things. To the extent possible, certain PCI loans were aggregated with composite interest rate and cash flows expected to be collected for the pool. Aggregation into loan pools is based on common risk characteristics that include similar credit risk or risk ratings, and one or more predominant risk characteristics. Generally, FHN pooled loans with smaller balances and common internal loan grades and portfolio types. Subsequent to the initial accounting at acquisition, each PCI pool is accounted for as a single unit.

PCI loans are not reported as nonperforming/nonaccrual loans due to the accretion of interest income. Additionally, PCI loans that have been pooled and subsequently modified are not reported as troubled debt restructurings since each pool is the unit of measurement. A majority of the PCI loans are included in the commercial real estate portfolio segment.

The following is a description of each portfolio:

## COMMERCIAL LOAN PORTFOLIOS

### C&I

The C&I portfolio was $8.5 billion on September 30, 2014, and is comprised of loans used for general business purposes and primarily composed of relationship customers in Tennessee and other selected markets that are managed within the regional bank. Typical products include working capital lines of credit, term loan financing of owner-occupied real estate and fixed assets, and trade credit enhancement through letters of credit. The following table provides the composition of the C&I portfolio by industry as of September 30, 2014 and 2013. For purposes of this disclosure, industries are determined based on the North American Industry Classification System ( NAICS ) industry codes used by Federal statistical agencies in classifying business establishments for the collection, analysis, and publication of statistical data related to the U.S. business economy.

**Table 10 C&I Loan Portfolio by Industry**

| *(Dollars in thousands)* | **September 30, 2014 Amount** | **Percent** | September 30, 2013 Amount | Percent |
|---|---|---|---|---|
| **Industry:** | | | | |
| Finance & insurance | **$ 1,854,949** | **22%** | $ 1,659,289 | 22% |
| Loans to mortgage companies | **957,641** | **11** | 732,701 | 9 |
| Wholesale trade | **769,249** | **9** | 650,013 | 8 |
| Healthcare | **761,934** | **9** | 766,046 | 10 |
| Manufacturing | **631,657** | **8** | 689,042 | 9 |
| Real estate rental & leasing (a) | **543,270** | **6** | 485,810 | 6 |
| Public Administration | **520,266** | **6** | 352,082 | 5 |
| Retail trade | **502,134** | **6** | 483,889 | 6 |
| Other (transportation, education, arts, entertainment, etc) (b) | **1,936,229** | **23** | 1,928,070 | 25 |
| Total C&I loan portfolio | **$ 8,477,329** | **100%** | $ 7,746,942 | 100% |

Certain previously reported amounts have been reclassified to agree with current presentation.

(a) Leasing, rental of real estate, equipment, and goods.
(b) Industries in this category each comprise less than 5 percent for 2014 and 2013.

As of September 30, 2014, finance and insurance, the largest component, represents 22 percent of the C&I portfolio. The balances of loans to mortgage companies were 11 percent of the C&I portfolio and include balances related to both home purchase and refinance activity. This portfolio class, which generally fluctuates with mortgage rates and seasonal factors, includes commercial lines of credit to qualified mortgage companies exclusively for the temporary warehousing of eligible mortgage loans prior to the borrower s sale of those mortgage loans to third party investors. Generally, lending to mortgage lenders increases when there is a decline in mortgage rates and decreases when rates rise. Significant loan concentrations are considered to exist for a financial institution when there are loans to numerous borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. Thirty-three percent of FHN s C&I portfolio (Finance and Insurance plus Loans to Mortgage Companies) could be affected by items that uniquely impact the financial services industry. Except as discussed under Finance and Insurance , on September 30, 2014, FHN did not have any other concentrations of C&I loans in any single industry of 10 percent or more of total loans.

**Finance and Insurance**

The finance and insurance component of the C&I portfolio includes TRUPS (i.e., long-term unsecured loans to bank and insurance-related businesses), loans to bank holding companies, and asset-based lending to consumer finance companies. The TRUPS portfolio has been stressed over the last few years but has seen the stronger borrowers stabilize as there have been upgrades within the TRUPS and bank stock portfolio and also favorable resolutions. Finance and Insurance also includes approximately $876 million of asset-based lending to consumer financing companies which have accounted for the growth in the finance and insurance component in 2014.

TRUPS lending was originally extended as a form of bridge financing to participants in the pooled trust preferred securitization program offered primarily to smaller banking (generally less than $15 billion in total assets) and insurance institutions through FHN s capital markets business. Origination of TRUPS lending ceased in early 2008. Individual TRUPS are re-graded at least quarterly as part of FHN s commercial loan review process. Typically, the terms of these loans include a prepayment option after a 5 year initial term (with possible triggers of early activation), have a scheduled 30 year balloon payoff, and include an option to defer interest for up to 20 consecutive quarters. As of September 30, 2014, two TRUPS relationships (one bank and one insurance) were on interest deferral, down from five in 2013, due to both sales and payoffs.

As of September 30, 2014, the unpaid principal balance ( UPB ) of trust preferred loans totaled $364.9 million ($208.7 million of bank TRUPS and $156.3 million of insurance TRUPS) with the UPB of other bank-related loans totaling $51.9 million. Inclusive of a remaining lower of cost or market ( LOCOM ) valuation allowance on TRUPS of $26.2 million, total reserves (ALLL plus the LOCOM) for TRUPS and other bank-related loans were $30.3 million or 7 percent of outstanding UPB.

**C&I Asset Quality Trends**

During 2014, performance of the C&I portfolio continued to improve although at a slower pace than in 2013, with a positive shift in the risk rating assignments and lower loss rates. Due to aggregate portfolio improvement, the ALLL declined by $21.5 million to $69.9 million as of September 30, 2014. The allowance as a percentage of period-end loans declined to .82 percent in 2014 from 1.18 percent in 2013. The decline was related to a lower ALLL because of aggregate improvement from a year ago and reduction of TRUPS loans that were on interest deferral from a year ago. Net charge-offs were at historically low levels in both 2014 and 2013, with net recoveries of $1.5 million in September 30, 2014 compared to net charge-offs of $1.6 million in September 30, 2013. The allowance to net charge-offs ratio was not meaningful in third quarter 2014 due to the net recoveries compared to 14.16 times net charge-offs in third quarter 2013. Nonperforming C&I loans decreased $61.3 million to $41.4 million on

September 30, 2014 with the regional bank contributing to 60 percent of the decline. The resolution of four TRUPS loans that were on interest deferral contributed to the remaining decline of 40 percent. The nonperforming loan ( NPL ) ratio decreased to .49 percent in September 30, 2014 from 1.33 percent in September 30, 2013.

**Commercial Real Estate**

The CRE portfolio was $1.3 billion on September 30, 2014. This portfolio is segregated between income CRE loans which consist of loans, lines, and letters of credit to commercial real estate developers for the construction and mini-permanent financing of income-producing real estate, and approximately $45 million of residential CRE loans. Subcategories of income CRE consist of multi-family (32 percent), retail (21 percent), office (15 percent), industrial (12 percent), hospitality (9 percent), land/land development (4 percent), and other (7 percent). A substantial portion of the income CRE class was originated through and continues to be managed by the regional bank. The income CRE loans showed improvement as property stabilization and strong sponsors have positively affected performance. FHN does not capitalize interest or fund interest on distressed properties. The residential CRE class includes loans to residential builders and developers for the purpose of constructing single-family detached homes, condominiums, and town homes.

Active residential CRE lending within the regional banking footprint is minimal with nearly all new originations limited to tactical advances to facilitate workout strategies with existing clients and selected new transactions with strategic clients. FHN considers a strategic residential CRE borrower as a homebuilder within the regional banking footprint who remained profitable during the down cycle.

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### CRE Asset Quality Trends

CRE loans continued to steadily improve in third quarter 2014. Allowance as a percentage of loans increased to 1.21 percent in 2014 from .94 percent in 2013. The level of allowance increased $4.5 million from 2013 to $15.5 million in third quarter 2014. On September 30, 2014, the allowance included $2.7 million of reserves specifically allocated to PCI loans. Net charge-offs were $1.5 million in September 30, 2014 compared to net recoveries recognized in September 30, 2013. The level of nonperforming loans decreased 43 percent to $14.2 million as of September 30, 2014 from September 30, 2013, or to 1.11 percent of total CRE loans. The decline in nonperforming loans is primarily attributable to the regional banking portion of the portfolio. Delinquencies were down by $2.9 million to $4.2 million in 2014.

## RETAIL LOAN PORTFOLIOS

### Consumer Real Estate

The consumer real estate portfolio was $5.1 billion on September 30, 2014, and is primarily composed of home equity lines and installment loans including restricted balances (loans consolidated per amendments to ASC 810). The largest geographical concentrations of balances as of September 30, 2014, are in Tennessee (58 percent) and California (9 percent) with no other state representing greater than 3 percent of the portfolio. At origination, approximately 54 percent of the consumer real estate portfolio was in a first lien position. At origination, the weighted average FICO score of this portfolio was 743 and refreshed FICO scores averaged 736 as of September 30, 2014. Generally, performance of this portfolio is affected by life events when borrowers have been impacted, the level of unemployment, and home prices.

HELOCs comprise $2.6 billion of the consumer real estate portfolio. FHN s HELOCs typically have a 5 or 10 year draw period followed by a 15 or 10 year repayment period, respectively. During the draw period, a borrower is able to draw on the line and is only required to make interest payments. The line is automatically frozen if a borrower becomes 45 days or more past due on payments. Once the draw period has concluded, the line is closed and the borrower is required to make both principal and interest payments monthly until the loan matures. The principal payment generally is fully amortizing, but payment amounts will adjust when variable rates reset to reflect changes in the prime rate.

As of September 30, 2014, approximately 75 percent of FHN s HELOCs are in the draw period. Based on when draw periods are scheduled to end per the line agreement, it is expected that $1.3 billion, or 70 percent of HELOCs currently in the draw period, will have entered the repayment period during the next 60 months. Delinquencies and charge-off rates for HELOCs that have entered the repayment period are initially higher than HELOCs still in the draw period because of the increased minimum payment requirement; however, after some seasoning, performance of these loans begins to stabilize. The home equity lines of the consumer real estate portfolio are being monitored closely for those nearing the end of the draw period and borrowers are being contacted proactively early in the process. The following table shows the HELOCs currently in the draw period and expected timing of conversion to the repayment period.

**Table 11 HELOC Draw To Repayment Schedule**

| | **September 30, 2014** | | September 30, 2013 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | | **Percent** | | Percent |

| | **Repayment Amount** | | Repayment Amount | |
|---|---|---|---|---|
| **Months remaining in draw period:** | | | | |
| 0-12 | **$ 388,756** | **20%** | $ 233,544 | 11% |
| 13-24 | **302,578** | **16** | 409,135 | 19 |
| 25-36 | **337,836** | **18** | 329,839 | 15 |
| 37-48 | **198,607** | **10** | 373,098 | 17 |
| 49-60 | **118,113** | **6** | 221,635 | 10 |
| >60 | **573,573** | **30** | 633,926 | 28 |
| Total | **$ 1,919,463** | **100%** | $ 2,201,177 | 100% |

100

### Consumer Real Estate Asset Quality Trends

Overall, performance of the consumer real estate portfolio was relatively stable in 2014 when compared with 2013. The ALLL decreased $2.4 million to $118.4 million in 2014 as a $4.4 million decrease in the allowance within the non-strategic segment was partially offset by increased reserves within the regional bank. The allowance as a percentage of loans was 2.31 percent of loans as of September 30, 2014 compared to 2.21 percent as of September 30, 2013. The balance of nonperforming loans was $123.5 million and $122.0 million as of September 30, 2014 and 2013, respectively. Loans delinquent 30 or more days and still accruing declined to 1.04 percent of the consumer real estate portfolio in 2014 from 1.05 percent in 2013 primarily due to runoff of the non-strategic segment and new originations within the bank to stronger borrowers, loss mitigation activities and improved overall performance. The net charge-offs ratio decreased 27 basis points to .60 percent of average loans in 2014. The decline was related to improved borrower performance as well as stronger underlying collateral values and enhanced recovery efforts.

### Permanent Mortgage

The permanent mortgage portfolio was $.6 billion on September 30, 2014. This portfolio is primarily composed of jumbo mortgages and one-time-close ( OTC ) completed construction loans that were originated through legacy businesses. Approximately 26 percent of loan balances are in California, but the remainder of the portfolio is somewhat geographically diverse. Natural run-off contributed to a majority of the net $124.9 million decrease in portfolio balances from 2013.

The ALLL decreased $5.3 million to $20.2 million as of September 30, 2014. TDR reserves comprise a significant majority of the ALLL for the permanent mortgage portfolio. Accruing delinquencies decreased by $1.7 million to $15.7 million. NPLs decreased by $3.0 million to $34.0 million in 2014 from 2013. Net charge-offs were $.4 million in 2014 compared to $.5 million during 2013.

### Credit Card and Other

The credit card and other portfolios were $.4 billion on September 30, 2014, and primarily include credit card receivables, other consumer-related credits, and automobile loans. In 2014, FHN charged-off $2.8 million of credit card and other consumer loans compared with $2.1 million during 2013. The allowance increased to $14.7 million as of September 30, 2014 from $7.0 million in 2013 and was largely due to refinement of the reserving process in early 2014 and an uptick in net charge-offs and delinquencies from a year ago. Loans 30 days or more delinquent increased from 1.11 percent in 2013 to 1.44 percent in 2014.

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The following table provides additional asset quality data by loan portfolio:

**Table 12 Asset Quality by Portfolio**

| | September 30 | |
|---|---|---|
| | **2014** | 2013 |
| **Key Portfolio Details** | | |
| **C&I** | | |
| Period-end loans ($ millions) | **$ 8,477** | $ 7,747 |
| 30+ Delinq. % (a) | **0.10%** | 0.11% |
| NPL % | **0.49** | 1.33 |
| Charge-offs % (qtr. annualized) | **NM** | 0.08 |
| Allowance / loans % | **0.82%** | 1.18% |
| Allowance / charge-offs | **NM** | 14.16x |
| **Commercial Real Estate** | | |
| Period-end loans ($ millions) | **$ 1,278** | $ 1,174 |
| 30+ Delinq. % (a) | **0.33%** | 0.60% |
| NPL % | **1.11** | 2.13 |
| Charge-offs % (qtr. annualized) | **0.47** | NM |
| Allowance / loans % | **1.21%** | 0.94% |
| Allowance / charge-offs | **2.64x** | NM |
| **Consumer Real Estate** | | |
| Period-end loans ($ millions) | **$ 5,131** | $ 5,458 |
| 30+ Delinq. % (a) | **1.04%** | 1.05% |
| NPL % | **2.41** | 2.23 |
| Charge-offs % (qtr. annualized) | **0.60** | 0.87 |
| Allowance / loans % | **2.31%** | 2.21% |
| Allowance / charge-offs | **3.83x** | 2.54x |
| **Permanent Mortgage** | | |
| Period-end loans ($ millions) | **$ 573** | $ 698 |
| 30+ Delinq. % (a) | **2.73%** | 2.48% |
| NPL % | **5.93** | 5.30 |
| Charge-offs % (qtr. annualized) | **0.25** | 0.29 |
| Allowance / loans % | **3.53%** | 3.66% |
| Allowance / charge-offs | **14.17x** | 12.26x |
| **Credit Card and Other** | | |
| Period-end loans ($ millions) | **$ 353** | $ 332 |
| 30+ Delinq. % (a) | **1.44%** | 1.11% |
| NPL % | **0.20** | 0.42 |
| Charge-offs % (qtr. annualized) | **3.19** | 2.61 |
| Allowance / loans % | **4.17%** | 2.09% |
| Allowance / charge-offs | **1.31x** | 0.82x |

NM Not meaningful

Loans are expressed net of unearned income.

(a) 30+ Delinquency % includes all accounts delinquent more than one month and still accruing interest.

**Allowance for Loan Losses**

Management s policy is to maintain the ALLL at a level sufficient to absorb estimated probable incurred losses in the loan portfolio. The total allowance for loan losses decreased 7 percent to $238.6 million on September 30, 2014, from $255.7 million on September 30, 2013. The allowance attributable to individually impaired loans was $66.2 million compared to $74.6 million on September 30, 2014 and 2013, respectively. FHN also had $2.8 million of reserves associated with PCI loans as of September 30, 2014. Continued aggregate improvement in borrowers financial conditions in 2014 and proactive management of problem credits contributed to the decline in the ALLL from a year ago. The ratio of allowance for loan losses to total loans, net of unearned income, decreased to 1.51 percent on September 30, 2014, from 1.66 percent on September 30, 2013.

The provision for loan losses is the charge to earnings necessary to maintain the ALLL at a sufficient level reflecting management s estimate of probable incurred losses in the loan portfolio. The provision for loan losses decreased 40 percent to $6.0 million for the three months ended September 30, 2014 from $10.0 million in 2013. On a consolidated basis, credit quality continued to improve from a year ago due to overall improvement in the commercial portfolio and stabilization of consumer real estate portfolios although the smaller-balance credit card and other portfolio had higher delinquencies and net charge-offs in 2014.

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FHN expects asset quality trends to be relatively stable for the remainder of 2014 and early 2015; that expectation depends upon a continued economic recovery, among other things, which may or may not occur. The C&I portfolio is expected to continue to show stable trends but short-term variability (both positive and negative) is possible. The CRE portfolio should be relatively stable as FHN has observed property values stabilizing. The remaining non-strategic consumer real estate and permanent mortgage portfolios should continue to steadily wind down. Continued improvement in performance of the consumer real estate portfolio assumes an ongoing economic recovery as consumer delinquency and loss rates are correlated with unemployment trends, and strength of the housing market.

### Consolidated Net Charge-offs

Net charge-offs were $11.0 million in 2014 compared with $16.2 million in 2013. The ALLL was 5.47 times net charge-offs for 2014 compared with 3.97 times net charge-offs for 2013 and the net charge-offs to average loans ratio decreased from .41 percent in 2013 to .28 percent in 2014 due to a 32 percent decline in net charge-offs.

Commercial loan net charge-offs were $0 in 2014 compared to $1.6 million in 2013 as commercial net charge-offs remain at historically low levels.

Net charge-offs of consumer real estate loans declined $4.2 million to $7.8 million in 2014, with all of the decline attributable to the non-strategic segment which more than offset a $2.1 million increase within the regional bank. The decline was due in part to improvement in the portfolio, stabilizing collateral values, and enhanced recovery efforts. Permanent mortgage net charge-offs declined $0.2 million and credit card and other net charge-offs increased $.7 million from a year ago.

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The following table provides consolidated asset quality information for the three months ended September 30, 2014 and 2013:

**Table 13 Asset Quality Information**

| | Three Months Ended September 30 | |
|---|---|---|
| *(Dollars in thousands, except as otherwise noted)* | **2014** | 2013 |
| **Allowance for loan losses:** | | |
| Beginning balance on June 30 | **$ 243,628** | $ 261,934 |
| Provision for loan losses | **6,000** | 10,000 |
| Charge-offs | **(23,684)** | (26,046) |
| Recoveries | **12,697** | 9,822 |
| Ending balance on September 30 (Restricted $.8 million on September 30, 2014, and $3.2 million on September 30, 2013) | **$ 238,641** | $ 255,710 |
| Reserve for remaining unfunded commitments | **2,313** | 2,956 |
| Total allowance for loan losses and reserve for unfunded commitments | **$ 240,954** | $ 258,666 |

| | As of September 30 | |
|---|---|---|
| Nonperforming Assets by Segment | **2014** | 2013 |
| **Regional Banking:** | | |
| Nonperforming loans (a) | **$ 70,805** | $ 118,507 |
| Foreclosed real estate (b) | **25,404** | 33,593 |
| Total Regional Banking | **96,209** | 152,100 |
| **Non-Strategic:** | | |
| Nonperforming loans (a) (c) | **139,038** | 164,534 |
| Nonperforming loans held-for-sale after fair value adjustment (d) | **7,931** | 65,972 |
| Foreclosed real estate (b) | **9,857** | 16,437 |
| Total Non-Strategic | **156,826** | 246,943 |
| **Corporate:** | | |
| Nonperforming loans (a) | **3,903** | 5,001 |
| Total Corporate | **3,903** | 5,001 |
| **Total nonperforming assets** (a) | **256,938** | 404,044 |
| **Loans and commitments:** | | |
| | **$ 15,812,017** | $ 15,408,556 |

| | | |
|---|---|---|
| Total period-end loans, net of unearned income (Restricted $.1 billion on September 30, 2014 and 2013) | | |
| Less: Insured retail residential and construction loans (e) | **(7,485)** | (23,349) |
| Loans excluding insured loans | **$ 15,804,532** | $ 15,385,207 |
| Foreclosed real estate from government insured mortgages | **12,735** | 21,596 |
| Potential problem assets (f) | **286,252** | 412,435 |
| Loans 30 to 89 days past due | **57,432** | 60,324 |
| Loans 30 to 89 days past due guaranteed portion (g) | **133** | 139 |
| Loans 90 days past due (h) | **28,882** | 33,846 |
| Loans 90 days past due guaranteed portion (g) (h) | **41** | 371 |
| Loans held-for-sale 30 to 89 days past due (d) | **7,032** | 13,693 |
| Loans held-for-sale 30 to 89 days past due guaranteed portion (d) (g) | **6,599** | 11,404 |
| Loans held-for-sale 90 days past due (d) (h) | **28,904** | 38,709 |
| Loans held-for-sale 90 days past due guaranteed portion (d) (g) (h) | **26,980** | 37,092 |
| Remaining unfunded commitments | **7,411,045** | 7,550,487 |
| Average loans, net of unearned (Restricted $.1 billion on September 30, 2014 and 2013) | **$ 15,763,365** | $ 15,651,813 |
| **Allowance and net charge-off ratios** | | |
| Allowance to total loans | **1.51%** | 1.66% |
| Allowance to nonperforming loans in the loan portfolio | **1.12x** | 0.89x |
| Allowance to loans excluding insured loans | **1.51%** | 1.66% |
| Allowance to annualized net charge-offs | **5.47x** | 3.97x |
| Nonperforming assets to loans and foreclosed real estate (i) | **1.57%** | 2.19% |
| Nonperforming loans in the loan portfolio to total loans, net of unearned income | **1.35%** | 1.87% |
| Total annualized net charge-offs to average loans (j) | **0.28%** | 0.41% |

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Certain previously reported amounts have been reclassified to agree with current presentation.

(a) Excludes loans that are 90 or more days past due and still accruing interest.
(b) Excludes foreclosed real estate from government-insured mortgages.
(c) The decrease is primarily related to the TRUPS sales and payoffs.
(d) The decline is due to the third quarter 2014 sale of mortgage loans. The amounts as of September 30, 2013 in this table have been re-presented net of the fair value adjustment. In 2013, the amounts were presented gross, before the fair value adjustment.
(e) Whole-loan insurance has been obtained on certain retail residential and construction loans.
(f) Includes past due loans.
(g) Guaranteed loans include FHA, VA, and GNMA loans repurchased through the GNMA buyout program.
(h) Amounts are not included in nonperforming/nonaccrual loans.
(i) Ratio is non-performing assets related to the loan portfolio to total loans plus foreclosed real estate and other assets.
(j) Net charge-off ratio is annualized net charge-offs divided by quarterly average loans, net of unearned income.

**Nonperforming Assets**

Nonperforming loans are loans placed on nonaccrual status if it becomes evident that full collection of principal and interest is at risk, impairment has been recognized as a partial charge-off of principal balance, or on a case-by-case basis if FHN continues to receive payments but there are atypical loan structures or other borrower-specific issues. Included in nonaccruals are loans in which FHN continues to receive payments, including residential real estate loans where the borrower has been discharged of personal obligation through bankruptcy and second liens, regardless of delinquency status, behind first liens that are 90 or more days past due or are TDRs. These, along with foreclosed real estate, excluding foreclosed real estate from government insured mortgages, represent nonperforming assets ( NPAs ).

Total nonperforming assets (including NPLs HFS) decreased to $256.9 million on September 30, 2014, from $404.0 million on September 30, 2013. Nonperforming assets (excluding NPLs HFS) decreased to $249.0 million on September 30, 2014, from $338.1 million on September 30, 2013. The nonperforming assets ratio (nonperforming assets excluding NPLs HFS to total period-end loans plus foreclosed real estate and other assets) decreased to 1.57 percent in 2014 from 2.19 percent in 2013 due to a 26 percent decline in portfolio nonperforming assets in 2014. Portfolio nonperforming loans declined $74.3 million to $213.7 million on September 30, 2014, largely driven by improvement in the C&I portfolio.

Nonperforming C&I loans decreased to $41.4 million in 2014 from $102.7 million in 2013. Resolutions of TRUPS loans contributed to $33.3 million of the year-over-year decline. The decline was partially offset by an insurance TRUP that elected interest deferral in third quarter 2014. The remaining decline was in the regional bank due to resolutions on larger loans and regular payments on smaller loans. The inflow into NPLs has also slowed down considerably. Commercial real estate NPLs decreased $10.8 million to $14.2 million in 2014. Consumer nonperforming loans decreased to $158.2 million from $160.3 million in 2013, mainly due to the decline in the permanent mortgage portfolio. Nonperforming loans classified as HFS decreased $58.0 million to $7.9 million on September 30, 2014 due to the sale of mortgage loans HFS in third quarter 2014. Loans in HFS are recorded at elected fair value or lower of cost or market and do not carry reserves.

The ratio of ALLL to NPLs in the loan portfolio increased to 1.12 times in 2014 compared to .89 times in 2013, driven by lower nonperforming loans. Certain nonperforming loans in both the commercial and consumer portfolios are deemed collateral-dependent and are charged down to an estimate of collateral value less costs to sell. Because loss content has been recognized through a partial charge-off, typically reserves are not recorded. Additionally, a majority of FHN s loans in held-for-sale are accounted for under the fair value option. As a result, losses related to nonperforming HFS loans have been recognized by FHN directly through the income statement.

The following table provides nonperforming loans both before and after partial charge-offs, LOCOM, and negative fair value adjustments previously taken as of September 30, 2014 and 2013.

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**Table 14 Nonperforming Loans**

| *(Dollars in thousands)* | September 30 **2014** | 2013 |
|---|---|---|
| Held-to-maturity: | | |
| Gross nonperforming loans | **$ 284,084** | $ 373,807 |
| Less: Partial charge-offs | **(69,723)** | (82,519) |
| Less: LOCOM | **(615)** | (3,246) |
| Net nonperforming loans | **$ 213,746** | $ 288,042 |
| Held-for-sale: | | |
| Gross nonperforming loans | **$ 14,945** | $ 145,952 |
| Less: Fair value mark | **(6,853)** | (78,000) |
| Less: LOCOM | **(161)** | (1,980) |
| Net nonperforming loans | **$ 7,931** | $ 65,972 |
| Total net nonperforming loans including held-for-sale | **$ 221,677** | $ 354,014 |

Table 15 provides an activity rollforward of foreclosed real estate balances for September 30, 2014 and 2013. The balance of foreclosed real estate, exclusive of inventory from government insured mortgages, decreased to $35.3 million as of September 30, 2014, from $50.0 million as of September 30, 2013 as FHN has continued efforts to avoid foreclosures by restructuring loans and working with borrowers and also executing foreclosed real estate sales. Additionally property values have stabilized which also affect the balance of foreclosed real estate. Negative adjustments to the fair value of foreclosed assets increased $.4 million between the periods to $.7 million for the three months ended September 30, 2014. See the discussion of Foreclosure Practices in the Market Uncertainties and Prospective Trends section of MD&A for information regarding the impact on FHN.

**Table 15 Rollforward of Foreclosed Real Estate**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **2014** | 2013 | **2014** | 2013 |
| Beginning balance (a) | **$ 38,781** | $ 51,342 | **$ 45,753** | $ 41,767 |
| Valuation adjustments | **(707)** | (327) | **(2,098)** | (3,278) |
| New foreclosed property | **5,505** | 5,664 | **17,010** | 14,481 |
| Acquired foreclosed property (b) | | | | 22,364 |
| Capitalized expenses | | | | 23 |
| Disposals: | | | | |
| Single transactions | **(7,899)** | (6,649) | **(24,083)** | (25,327) |
| Bulk sales | **(419)** | | **(1,321)** | |
| Ending balance, September 30 (a) | **$ 35,261** | $ 50,030 | **$ 35,261** | $ 50,030 |

(a) Excludes foreclosed real estate related to government insured mortgages.
(b) Foreclosed assets were acquired through the MNB acquisition in second quarter 2013.

**Past Due Loans and Potential Problem Assets**

Past due loans are loans contractually past due as to interest or principal payments, but which have not yet been put on nonaccrual status. Loans in the portfolio that are 90 days or more past due and still accruing decreased to $28.9 million on September 30, 2014, from $33.8 million on September 30, 2013. The decrease was driven by permanent mortgage and consumer real estate portfolios and offset by increases in C&I and credit card and other portfolios. Loans 30 to 89 days past due decreased $2.9 million to $57.4 million on September 30, 2014. The decline in loans past due 30-89 days is largely attributable to the consumer real estate portfolio and the commercial portfolios because of aggregate improved performance and loss mitigation activities. These decreases were somewhat offset by an increase in delinquencies within the permanent mortgage and credit card and other portfolios.

Potential problem assets represent those assets 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 for loans classified as substandard. Potential problem assets in the loan portfolio, which includes loans past due 90 days or more and still accruing, were $286.3 million on September 30, 2014, and $412.4 million on September 30, 2013. The current expectation of losses from potential problem assets has been included in management s analysis for assessing the adequacy of the allowance for loan losses.

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### Troubled Debt Restructuring and Loan Modifications

As part of FHN s ongoing risk management practices, FHN attempts to work with borrowers when appropriate to extend or modify loan terms to better align with their current ability to repay. Extensions and modifications to loans are made in accordance with internal policies and guidelines which conform to regulatory guidance. Each occurrence is unique to the borrower and is evaluated separately. In a situation where an economic concession has been granted to a borrower that is experiencing financial difficulty, FHN identifies and reports that loan as a Troubled Debt Restructuring ( TDR ). FHN considers regulatory guidelines when restructuring loans to ensure that prudent lending practices are followed. As such, qualification criteria and payment terms consider the borrower s current and prospective ability to comply with the modified terms of the loan. Additionally, FHN structures loan modifications to amortize the debt within a reasonable period of time. See Note 4 Loans for further discussion regarding TDRs.

Commercial Loan Modifications

As part of FHN s credit risk management governance processes, the Loan Rehab and Recovery Department ( LRRD ) is responsible for managing most commercial relationships with borrowers whose financial condition has deteriorated to such an extent that the credits are being considered for impairment, classified as substandard or worse, placed on nonaccrual status, foreclosed or in process of foreclosure, or in active or contemplated litigation. LRRD has the authority and responsibility to enter into workout and/or rehabilitation agreements with troubled commercial borrowers in order to mitigate and/or minimize the amount of credit losses recognized from these problem assets. The range of commercial workout strategies utilized by LRRD to mitigate the likelihood of loan losses is commensurate with the degree of commercial credit quality deterioration. While every circumstance is different, LRRD will generally use forbearance agreements (generally 6-12 months) as an element of commercial loan workouts, which include reduced interest rates, reduced payments, release of guarantor, or entering into short sale agreements. Senior credit management tracks classified loans and performs periodic reviews of such assets to understand FHN s interest in the borrower, the most recent financial results of the borrower, and the associated loss mitigation approaches and/or exit plans that have been developed for those relationships. After initial identification, relationship managers prepare regular updates for review and discussion by more senior business line and credit officers.

The individual impairment assessments completed on commercial loans in accordance with the Accounting Standards Codification Topic related to Troubled Debt Restructurings ( ASC 310-40 ) include loans classified as TDRs as well as loans that may have been modified yet not classified as TDRs by management. For example, a modification of loan terms that management would generally not consider to be a TDR could be a temporary extension of maturity to allow a borrower to complete an asset sale whereby the proceeds of such transaction are to be paid to satisfy the outstanding debt. Additionally, a modification that extends the term of a loan but does not involve reduction of principal or accrued interest, in which the interest rate is adjusted to reflect current market rates for similarly situated borrowers, is not considered a TDR. Nevertheless, each assessment will take into account any modified terms and will be comprehensive to ensure appropriate impairment assessment. If individual impairment is identified, management will either hold specific reserves on the amount of impairment, or, if the loan is collateral dependent, write down the carrying amount of the asset to the net realizable value of the collateral.

Consumer Loan Modifications

Although FHN does not currently participate in any of the loan modification programs sponsored by the U.S. government, FHN does modify consumer loans using the parameters of Home Affordable Modification Program ( HAMP ). Generally, a majority of loans modified under any such proprietary programs are classified as TDRs.

Within the HELOC and R/E installment loan classes of the consumer portfolio segment, TDRs are typically modified by reducing the interest rate (in increments of 25 basis points to a minimum of 1 percent for up to 5 years) and a possible maturity date extension to reach an affordable housing debt ratio. Permanent mortgage TDRs are typically modified by reducing the interest rate (in increments of 25 basis points to a minimum of 2 percent for up to 5 years) and a possible maturity date extension to reach an affordable housing debt ratio. After 5 years the interest rate steps up 1 percent every year thereafter until it reaches the Freddie Mac Weekly Survey Rate cap. Contractual maturities may be extended to 40 years on permanent mortgages and to 30 years for consumer real estate loans. Within the credit card class of the consumer portfolio segment, TDRs are typically modified through either a short-term credit card hardship program or a longer-term credit card workout program. In the credit card hardship program, borrowers may be granted rate and payment reductions for 6 months to 1 year. In the credit card workout program, customers are granted a rate reduction to 0 percent and term extensions for up to 5 years to pay off the remaining balance.

Following classification as a TDR, modified loans within the consumer portfolio, which were previously evaluated for impairment on a collective basis determined by their smaller balances and homogenous nature, become subject to the impairment guidance in ASC 310-10-35, which requires individual evaluation of the debt for impairment. However, as applicable accounting guidance allows, FHN may aggregate certain smaller-balance homogeneous TDRs and use historical statistics, such as aggregated charge-off amounts and average amounts recovered, along with a composite effective interest rate to measure impairment when such impaired loans have risk characteristics in common.

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On September 30, 2014 and 2013, FHN had $346.0 million and $369.4 million portfolio loans classified as TDRs, respectively. For TDRs in the loan portfolio, FHN had loan loss reserves of $60.9 million and $61.3 million, or 18 percent and 17 percent of TDR balances, as of September 30, 2014 and 2013, respectively. Additionally, FHN had $83.1 million and $133.9 million of loans HFS as of September 30, 2014 and 2013, respectively, that were classified as TDRs. The commercial and consumer portfolio TDRs decreased by $23.4 million. The HFS TDRs decreased by $50.8 million from a year ago mainly due to the sale of mortgage loans HFS in third quarter 2014.

The following table provides a summary of TDRs for the periods ended September 30, 2014 and 2013:

**Table 16 Troubled Debt Restructurings**

| | **As of September 30, 2014** | | As of September 30, 2013 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **Number** | **Amount** | Number | Amount |
| Held-to-maturity: | | | | |
| Permanent mortgage: | | | | |
| Current | **183** | **$ 90,292** | 181 | $ 96,264 |
| Delinquent | **7** | **5,177** | 8 | 5,296 |
| Non-accrual (a) | **116** | **23,067** | 134 | 26,564 |
| Total permanent mortgage | **306** | **118,536** | 323 | 128,124 |
| Consumer real estate: | | | | |
| Current | **1,049** | **109,029** | 967 | 108,024 |
| Delinquent | **43** | **4,483** | 44 | 4,128 |
| Non-accrual (b) | **1,252** | **61,020** | 1,372 | 58,249 |
| Total consumer real estate | **2,344** | **174,532** | 2,383 | 170,401 |
| Credit card and other: | | | | |
| Current | **203** | **500** | 276 | 593 |
| Delinquent | **12** | **48** | 18 | 55 |
| Non-accrual | | | | |
| Total credit card and other | **215** | **548** | 294 | 648 |
| Commercial loans: | | | | |
| Current | **26** | **31,666** | 26 | 22,016 |
| Delinquent | | | | |
| Non-accrual | **34** | **20,731** | 53 | 48,220 |
| Total commercial loans | **60** | **52,397** | 79 | 70,236 |
| Total held-to-maturity | **2,925** | **346,013** | 3,079 | 369,409 |

| | | | | |
|---|---|---|---|---|
| Held-for-sale: (c) | | | | |
| Current | **369** | **54,535** | 460 | 76,247 |
| Delinquent | **157** | **24,361** | 189 | 31,210 |
| Non-accrual (d) | **31** | **4,193** | 231 | 26,452 |
| Total held-for-sale | **557** | **83,089** | 880 | 133,909 |
| Total troubled debt restructurings | **3,482** | **$ 429,102** | 3,959 | $ 503,318 |

Certain previously reported amounts have been reclassified to agree with current presentation.

(a) Balances as of September 30, 2014 and 2013 include $7.6 million and $11.1 million, respectively, of discharged bankruptcies.
(b) Balances as of September 30, 2014 and 2013 include $19.7 million and $30.0 million, respectively, of discharged bankruptcies.
(c) Loans HFS are reported net of negative fair value adjustments.
(d) Balances as of September 30, 2014 and 2013 include $4.5 million and $13.9 million, respectively, of discharged bankruptcies.

RISK MANAGEMENT

Except as discussed below, there have been no significant changes to FHN s risk management practices as described under Risk Management beginning on page 42 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2013, which section is incorporated into this report by this reference.

**MARKET RISK MANAGEMENT**

There have been no significant changes to FHN s market risk management practices as described under Market Risk Management beginning on page 43 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2013, which section is incorporated into this report by this reference.

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**Value-at-Risk ( VaR ) and Stress Testing**

VaR is a statistical risk measure to estimate the potential loss in value from adverse market movements over an assumed fixed holding period within a stated confidence level. FHN employs a model to compute daily VaR measures for its trading securities inventory. FHN computes VaR using historical simulation with a 1-year lookback period at a 99 percent confidence level and 1-day and 10-day time horizons. Additionally, FHN computes a Stressed VaR ( SVaR ) measure. The SVaR computation uses the same model but with model inputs reflecting historical data from a continuous 12-month period that reflects a period of significant financial stress appropriate for Capital Markets trading securities portfolio.

A summary of FHN s VaR and SVaR measures for 1-day and 10-day time horizons is as follows:

**Table 17 VaR and SVaR Measures**

| | **Three Months Ended September 30, 2014** | | | **Nine Months Ended September 30, 2014** | | | **As of September 30, 2014** |
|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | **Mean** | **High** | **Low** | **Mean** | **High** | **Low** | |
| **1-day** | | | | | | | |
| VaR | **$ 554** | **$ 1,043** | **$ 369** | **$ 1,044** | **$ 2,072** | **$ 369** | **$ 461** |
| SVaR | **4,175** | **6,287** | **2,672** | **3,408** | **6,287** | **1,915** | **3,072** |
| **10-day** | | | | | | | |
| VaR | **1,678** | **3,777** | **743** | **3,439** | **7,105** | **743** | **1,344** |
| SVaR | **15,620** | **21,233** | **9,699** | **12,439** | **21,233** | **5,574** | **11,866** |

| | Three Months Ended September 30, 2013 | | | Nine Months Ended September 30, 2013 | | | As of September 30, 2013 |
|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Mean | High | Low | Mean | High | Low | |
| **1-day** | | | | | | | |
| VaR | $ 1,237 | $ 1,886 | $ 597 | $ 1,495 | $ 3,145 | $ 597 | $ 1,092 |
| SVaR | 2,894 | 4,072 | 1,658 | 4,712 | 9,991 | 1,658 | 2,900 |
| **10-day** | | | | | | | |
| VaR | 4,017 | 5,844 | 1,519 | 4,614 | 10,297 | 1,519 | 4,205 |
| SVaR | 8,564 | 22,731 | 3,921 | 13,485 | 25,423 | 3,921 | 8,210 |

FHN s overall VaR measure includes both interest rate risk and credit spread risk. Separate measures of these component risks are as follows:

**Table 18- Schedule of Risks Included in VaR**

| | **As of September 30, 2014** | | As of September 30, 2013 | |
|---|---|---|---|---|
| *(Dollars in Thousands)* | **1-day** | **10-day** | 1-day | 10-day |
| Interest rate risk | **$ 578** | **$ 1,463** | $ 637 | $ 1,845 |
| Credit spread risk | **517** | **1,002** | 772 | 2,367 |

**CAPITAL MANAGEMENT AND ADEQUACY**

There have been no significant changes to FHN s capital management practices as described under Capital Management and Adequacy beginning on page 44 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2013, which section is incorporated into this report by this reference.

**OPERATIONAL RISK MANAGEMENT**

There have been no significant changes to FHN s operational risk management practices as described under Operational Risk Management on page 45 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2013, which section is incorporated into this report by this reference.

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## COMPLIANCE RISK MANAGEMENT

There have been no significant changes to FHN s compliance risk management practices as described under Compliance Risk Management on page 45 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2013, which section is incorporated into this report by this reference.

## CREDIT RISK MANAGEMENT

There have been no significant changes to FHN s credit risk management practices as described under Credit Risk Management beginning on page 45 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2013, which section is incorporated into this report by this reference.

## INTEREST RATE RISK MANAGEMENT

Except as disclosed below, there have been no significant changes to FHN s interest rate risk management practices as described under Interest Rate Risk Management beginning on page 46 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2013, which section is incorporated into this report by this reference.

### Net Interest Income Simulation Analysis

The information provided in this section, including the discussion regarding the outcomes of simulation analysis and rate shock analysis, is forward-looking. Actual results, if the assumed scenarios were to occur, could differ because of interest rate movements, the ability of management to execute its business plans, and other factors, including those presented in the Forward-Looking Statements section of this MD&A.

Management uses interest rate exposure models to formulate strategies to improve balance sheet positioning, earnings, or both, within FHN s interest rate risk, liquidity, and capital guidelines. FHN uses simulation analysis as its primary tool to evaluate interest rate risk exposure. This type of analysis computes net interest income at risk under a variety of market interest rate scenarios to dynamically identify interest rate risk exposures exclusive of the potential impact on fee income. This risk management simulation, which considers forecasted balance sheet changes, prepayment speeds, deposit mix, pricing impacts, and other changes in the net interest spread, provides an estimate of the annual net interest income at risk for given changes in interest rates. The results help FHN develop strategies for managing exposure to interest rate risk. Like any risk management technique creating simulated outcomes for a range of given scenarios, interest rate simulation modeling is based on a number of assumptions and judgments. In this case, the assumptions relate primarily to loan and deposit growth, asset and liability prepayments, interest rates, and on- and off-balance sheet hedging strategies. Management believes the assumptions used and scenarios selected in its simulations are reasonable. Nevertheless, simulation modeling provides only a sophisticated estimate, not a precise calculation, of exposure to any given changes in interest rates.

The simulation models used to analyze net interest income create various at-risk scenarios looking at assumed increases and/or decreases in interest rates from instantaneous and staggered movements over a certain time period. In addition, the risk of changes in the yield curve is estimated by flattening and steepening the yield curve to simulate net interest income exposure. Management reviews these different scenarios to determine alternative strategies and executes based on that evaluation. The models are regularly updated to incorporate management action. Any scenarios that indicate a change in net interest income of 3 percent or more from a base net interest income are presented to the Board quarterly. At September 30, 2014, the interest rate environment remained at a low level. Under these market conditions, traditional scenarios estimating the impact of declining rates are not meaningful. Accordingly, declining rate shock scenarios (including minus 25 basis points and minus 200 basis points) were not performed.

The remaining scenarios performed attempt to capture risk to net interest income from rising rates and changes in the shape of the yield curve. Based on the rate sensitivity position on September 30, 2014, net interest income exposure over the next 12 months to a rate shock of plus 200 basis points is estimated to be a favorable variance of approximately 11.2 percent of base net interest income. A flattening yield curve scenario, where long-term rates decrease and short-term rates are static, results in an unfavorable variance in net interest income of approximately 1.4 percent of base net interest income. These hypothetical scenarios are used to create one estimate of risk, and do not necessarily represent management s current view of future interest rates or market developments.

While the continuing low interest rate environment is not expected to have a significant impact on the capital position of FHN, the ability to expand net interest margin in this environment, without assuming additional credit risk, continues to be a challenge for FHN. Assuming the historically low interest rate environment persists, net interest margin will typically decline as yields on fixed rate loans and investment securities decrease due to the combination of asset prepayments and lower reinvestment rates. With core deposit rates at historically low levels, there is little opportunity to offset the yield declines in fixed rate assets with corresponding declines in deposit rates.

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**LIQUIDITY MANAGEMENT**

ALCO also focuses on liquidity management: the funding of assets with liabilities of the appropriate duration, while mitigating the risk of unexpected cash needs. A key objective of liquidity management is to ensure the continuous availability of funds to meet the demands of depositors, other creditors and borrowers, and the requirements of ongoing operations. This objective is met by maintaining liquid assets in the form of trading securities and securities available-for-sale, growing core deposits, and the repayment of loans. ALCO is responsible for managing these needs by taking into account the marketability of assets, the sources, stability, and availability of funding, and the level of unfunded commitments. Subject to market conditions and compliance with applicable regulatory requirements from time to time, funds are available from a number of sources including core deposits, the available-for-sale securities portfolio, the Federal Reserve Banks, access to Federal Reserve Bank programs, the FHLB, access to the overnight and term Federal Funds markets, loan sales, syndications, and dealer and commercial customer repurchase agreements.

FHN also may use unsecured borrowings as a source of liquidity. Currently, the largest concentration of unsecured borrowings is federal funds purchased from bank correspondent customers. These funds are considered to be substantially more stable than funds purchased in the national broker markets for federal funds due to the long, historical, and reciprocal nature of banking services provided by FHN to these correspondent banks. The remainder of FHN s wholesale short-term borrowings is repurchase agreement transactions accounted for as secured borrowings with the regional bank s business customers or capital markets broker dealer counterparties.

ALCO manages FHN s exposure to liquidity risk through a dynamic, real time forecasting methodology. Base liquidity forecasts are reviewed by ALCO and are updated as financial conditions dictate. In addition to the baseline liquidity reports, robust stress testing of assumptions and funds availability are periodically reviewed. FHN maintains a contingency funding plan that may be executed should unexpected difficulties arise in accessing funding that affects FHN, the industry as a whole, or both. As a general rule, FHN strives to maintain excess liquidity equivalent to 15 percent or more of total assets.

Core deposits are a significant source of funding and have historically been a stable source of liquidity for banks. Generally, core deposits represent funding from a financial institutions customer base which provide inexpensive, predictable pricing. The Federal Deposit Insurance Corporation insures these deposits to the extent authorized by law. Generally, these limits are $250 thousand per account owner for interest bearing and non-interest bearing accounts. The ratio of total loans, excluding loans HFS and restricted real estate loans and secured borrowings, to core deposits was 100 percent in third quarter 2014 compared to 96 percent in third quarter 2013, due to an increase in the loan portfolio.

Both FHN and FTBNA may access the debt markets in order to provide funding through the issuance of senior or subordinated unsecured debt subject to market conditions and compliance with applicable regulatory requirements. In 2010, FHN issued $500 million of non-callable fixed rate senior notes due in December 2015. As of September 30, 2014, FHN had outstanding capital securities representing guaranteed preferred beneficial interests in $206 million of FHN s junior subordinated debentures through a Delaware business trust, wholly owned by FHN, which was eligible for inclusion in Tier 1 Capital. Tier 1 Capital treatment for these securities will begin phasing out after 2014 and entirely after 2015. FHN also maintains $.1 billion of borrowings which are secured by residential real estate loans in a consolidated securitization trust.

Both FHN and FTBNA have the ability to generate liquidity by issuing preferred or common equity subject to market conditions and compliance with applicable regulatory requirements. In January 2013, FHN issued $100 million of Series A Non-Cumulative Perpetual Preferred Stock. As of September 30, 2014, FTBNA and subsidiaries had outstanding preferred shares of $.3 billion, which are reflected as noncontrolling interest on the Consolidated Condensed Statements of Condition.

Parent company liquidity is primarily provided by cash flows stemming from dividends and interest payments collected from subsidiaries. These sources of cash represent the primary sources of funds to pay cash dividends to shareholders and principal and interest to debt holders. The amount paid to the parent company through FTBNA common dividends is managed as part of FHN s overall cash management process, subject to applicable regulatory restrictions. Certain regulatory restrictions exist regarding the ability of FTBNA to transfer funds to FHN in the form of cash, common dividends, loans, or advances. At any given time, the pertinent portions of those regulatory restrictions allow FTBNA to declare preferred or common dividends without prior regulatory approval in an aggregate amount equal to FTBNA s retained net income for the two most recent completed years plus the current year to date. For any period, FTBNA s retained net income generally is equal to FTBNA s regulatory net income reduced by the preferred and common dividends declared by FTBNA. Excess dividends in either of the two most recent completed years may be offset with available retained net income in the two years immediately preceding it. Applying the applicable rules, FTBNA s total amount available for dividends was negative $31.4 million as of September 30, 2014, compared to negative $201.5 million at September 30, 2013. Consequently, FTBNA cannot pay common dividends to its sole common stockholder, FHN, or to its preferred shareholders without prior regulatory approval. FTBNA applied for and received approval from the OCC to declare and pay common dividends to FHN in the amounts of $180 million in 2013 and $80 million in third quarter 2014. FTBNA applied for and received approval from the OCC to declare and pay preferred dividends in the first three quarters of 2014 and each quarter in 2013.

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Payment of a dividend to shareholders of FHN is dependent on several factors which are considered by the Board. These factors include FHN s current and prospective capital, liquidity, and other needs, applicable regulatory restrictions, and also availability of funds to FHN through a dividend from FTBNA. Additionally, the Federal Reserve and the OCC generally require insured banks and bank holding companies to pay cash dividends only out of current operating earnings. Consequently, the decision of whether FHN will pay future dividends and the amount of dividends will be affected by current operating results. FHN paid a cash dividend of $.05 per common share on October 1, 2014, and in October the Board approved a $.05 per common share cash dividend payable on January 1, 2015, to shareholders of record on December 12, 2014. FHN paid a cash dividend of $1,550.00 per preferred share on October 10, 2014, and in October the Board approved a $1,550.00 per preferred share cash dividend payable on January 12, 2015, to shareholders of record on December 26, 2014.

## CREDIT RATINGS

FHN is currently able to fund a majority of the balance sheet through core deposits, which are generally not sensitive to FHN s credit ratings. However, maintaining adequate credit ratings on debt issues and preferred stock is critical to liquidity should FHN need to access funding from other sources, including from long-term debt issuances and certain brokered deposits, at an attractive rate. The availability and cost of funds other than core deposits is also dependent upon marketplace perceptions of the financial soundness of FHN, which include such factors as capital levels, asset quality, and reputation. The availability of core deposit funding is stabilized by federal deposit insurance, which can be removed only in extraordinary circumstances, but may also be influenced to some extent by the same factors that affect other funding sources. FHN s credit ratings are also referenced in various respects in agreements with certain derivative counterparties as discussed in Note 15 Derivatives.

The following table provides FHN s most recent credit ratings:

**Table 19 Credit Ratings**

| | Standard & Poor s (a) | Moody s (b) | Fitch (c) |
|---|---|---|---|
| **First Horizon National Corporation** | | | |
| Overall credit rating: | | | |
| Long-term/Short-term/Outlook | BB+/ /Stable | Baa3/ /Stable | BBB-/F3/Stable |
| Long-term senior debt | BB+ | Baa3 | BBB- |
| Subordinated debt | BB | Ba1 | BB+ |
| Trust preferred capital securities (d) | B+ | Ba2 | B+ |
| Preferred stock | B+ | Ba3 | B |
| **First Tennessee Bank National Association** | | | |
| Overall credit rating: | | | |
| Long-term/Short-term/Outlook | BBB-/A-3/Stable | Baa2/P-2/Stable | BBB-/F3/Stable |
| Long-term/short-term deposits | BBB-/A-3 | Baa2/P-2 | BBB/F3 |
| Long-term/short-term senior debt | BBB-/A-3 | Baa2/P-2 | BBB-/F3 |
| Subordinated debt | BB+ | Baa3 | BB+ |
| Preferred stock | BB- | Ba2 | B |
| **FT Real Estate Securities Company, Inc.** | | | |
| Preferred stock | BB- | Ba1 | |

A rating is not a recommendation to buy, sell, or hold securities and is subject to revision or withdrawal at any time and should be evaluated independently of any other rating.

(a) Last change in ratings was on September 29, 2014.
(b) Last change in ratings was on October 25, 2013; ratings/outlook affirmed April 28, 2014.
(c) Last change in ratings was on December 13, 2012; ratings/outlook affirmed February 5, 2014.
(d) Guaranteed preferred beneficial interest in First Horizon s junior subordinated debentures issued through a wholly-owned unconsolidated business trust.

**CASH FLOWS**

The Consolidated Condensed Statements of Cash Flows provide information on cash flows from operating, investing, and financing activities for the nine months ended September 30, 2014 and 2013. The level of cash and cash equivalents increased $81.8 million during 2014 compared to a decrease of $81.4 million during 2013. During the nine months ended September 30, 2014 cash provided by operating activities outpaced cash used by investing and financing activities, whereas during the nine months ended September 30, 2013 cash used by financing activities more than offset cash provided by operating and investing activities.

Net cash provided by operating activities was $585.6 million in 2014 and $114.2 million in 2013. Operating cash flows in 2014 were positively affected by cash-related net income items, cash proceeds from MSR sales, and $243.6 million of changes in cash related to operating assets and liabilities. Additionally the sale of mortgage loans HFS positively impacted cash during 2014, however these increases were partially offset by a $215.5 million net change in cash related to capital market activities which negatively impacted operating cash flows. In 2013, operating cash flows were positively affected by cash-related net income items which more than offset a $84.9 million net decrease in cash related to capital market activities and $90.2 million of changes in operating assets and liabilities that negatively affected cash flows.

Net cash used by financing activities was $374.5 million in 2014 compared to $1,760.3 million in 2013. In 2014, cash was negatively affected by a decline in deposits and payments of long-term borrowings related to the collapse/resolution of two securitization trusts, but was offset by cash inflows from increased FHLB borrowings as a result of loan growth and deposit fluctuations. In 2013, cash outflows related to a decline in deposits of $707.9 million, a decline in short-term borrowings of $611.4 million and maturities and payments of term borrowings of $411.0 million, coupled with the repurchase of common shares of $91.4 million, more than offset the cash inflow from the preferred stock issuance of $95.6 million. The decline in short-term borrowings in 2013 was due to the payoff of FHLB borrowings.

Net cash used by investing activities was $129.2 million in 2014 compared to net cash provided by investing activities of $1,564.7 million in 2013. In 2014, an increase in loan balances and a $115.4 million net decrease in cash related to activity associated with the available-for-sale securities portfolio negatively affected cash provided by investing activities. These cash outflows were somewhat offset by a decrease in interest-bearing cash which favorably affected cash provided by investing activities. In 2013, cash from investing activities was favorably affected by a $1,461.7 million decline in balances of the originated loan portfolio and $50.9 million in cash receipts related to the MNB acquisition, but was somewhat mitigated by activity related to the available-for-sale securities portfolio which resulted in a $130.9 million net decrease in cash as securities purchased outpaced maturities and sales.

## REPURCHASE OBLIGATIONS, OFF-BALANCE SHEET ARRANGEMENTS, AND OTHER CONTRACTUAL OBLIGATIONS

### Repurchase and Related Obligations from Loans Originated for Sale

Prior to September 2008, as a means to provide liquidity for its legacy mortgage banking business, FHN originated loans through its legacy mortgage business, primarily first lien home loans, with the intention of selling them. Some government-insured and government-guaranteed loans were originated with credit recourse retained by FHN and some other mortgages were originated to be held, but predominantly mortgage loans were intended to be sold without recourse for credit default. Sales typically were effected either as non-recourse whole loan sales or through non-recourse proprietary securitizations. Conventional conforming single-family residential mortgage loans were sold predominately to two GSEs: Fannie Mae and Freddie Mac. Also federally insured or guaranteed whole loans were pooled, and payments to investors were guaranteed through the Government National Mortgage Association ( Ginnie Mae, Ginnie, or GNMA ). Many mortgage loan originations, especially those nonconforming mortgage loans that did not meet criteria for whole loan sales to the GSEs or insurance through Ginnie (collectively, the Agencies ), were sold to investors, or certificate-holders, predominantly through First Horizon branded proprietary securitizations ( FH proprietary securitizations ) but also, to a lesser extent, through whole loan sales to private non-Agency purchasers. In addition, FHN originated with the intent to sell and sold HELOCs and second lien mortgages through whole loan sales to private purchasers and, to a lesser extent, through FH proprietary securitizations.

For non-recourse loan sales, FHN has exposure for repurchase of loans arising from claims that FHN breached its representations and warranties made at closing to the purchasers, including GSEs, other whole loan purchasers, and the trustee of FH proprietary securitizations. Additionally, FHN has exposure to investors for investment rescission or damages arising from claims that offering documents were materially deficient in the case of loans transferred through FH proprietary securitizations. See Other FHN Mortgage Exposures and Trends within this section of MD&A for additional information.

Since the end of 2008, FHN has experienced significantly elevated levels of claims to either repurchase loans from the purchaser or remit payment to the purchaser to make them whole for economic losses incurred primarily because of loan delinquencies. Such claims are pursued because purchasers allege that certain loans that were sold violated representations and warranties made by FHN at closing. While FHN has received claims from private investors from whole loans sales, a significant majority of claims relate to non-recourse whole loan sales to GSEs. FHN also has the potential for financial exposure from loans transferred through FH proprietary securitizations. See Note 11 Contingencies and Other Disclosures for other actions taken by investors of FH proprietary securitizations and also for a discussion outlining differences between representations and warranties made by FHN for GSE loan sales versus FH proprietary securitizations.

Origination Data

From 2005 through 2008, FHN originated and sold $69.5 billion of mortgage loans to the Agencies without recourse which includes $57.6 billion of loans sold to GSEs and $11.9 billion of loans guaranteed by Ginnie Mae. GSE loans originated in 2005 through 2008 account for over 90 percent of all repurchase requests/make-whole claims received from the third quarter 2008 divestiture of certain mortgage banking operations through September 30, 2014.

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In addition, for many years ending in 2007, FHN securitized mortgage loans without recourse in First Horizon branded proprietary transactions. From 2005 through 2007, FHN securitized $26.7 billion of mortgage loans under the First Horizon brand. Although initially servicing generally was retained, substantially all remaining servicing for these loans was sold in first quarter 2014.

The following table summarizes the loan composition of the FH proprietary mortgage securitizations from 2005 through 2007:

**Table 20 Composition of Off-Balance Sheet First Horizon Proprietary Mortgage Securitizations**

| *(Dollars in thousands)* | Original UPB for active FH securitizations (a) | UPB as of September 30, 2014 |
|---|---|---|
| **Loan type:** | | |
| Jumbo | $ 9,410,499 | $ 1,941,225 |
| Alt-A | 17,270,431 | 4,414,791 |
| Total FH proprietary securitizations | $ 26,680,930 | $ 6,356,016 |

(a) Original principal balances obtained from trustee statements.

At September 30, 2014, the repurchase request pipeline contained no repurchase requests related to FH proprietary first lien securitized mortgage loans based on claims related to breaches of representations and warranties. At September 30, 2014, FHN had not accrued a liability for exposure for repurchase of loans arising from claims that FHN breached its representations and warranties made in FH proprietary securitizations at closing. Due to the sales of MSR in 2008 through 2014, FHN has limited visibility into current loan information such as principal payoffs, refinance activity, delinquency trends, and loan modification activity.

**Active Pipeline**

The amount of repurchase requests and make-whole claims is accumulated into the active pipeline. The active pipeline includes the amount of claims for repurchase, make-whole payments, loans in which private mortgage insurance ( MI ) has been canceled, and information requests from purchasers of loans originated and sold through FHN s legacy mortgage banking business. MI was required for certain of the loans sold to GSEs or that were securitized. MI generally was provided on first lien loans that were sold to GSEs or securitized that had a loan-to-value ( LTV ) ratio at origination of greater than 80 percent. Although unresolved MI cancellation notices are not formal repurchase requests, FHN includes those loans in the active pipeline. Additionally, FHN is responsible for covering losses for investors to the extent there is a shortfall in MI insurance coverage (MI curtailment).

For purposes of quantifying the amount of loans underlying the repurchase/make-whole claim or MI cancellation notice or curtailment, FHN uses the current UPB in all cases if the amount is available. If current UPB is unavailable, the original loan amount is substituted for the current UPB. When neither is available, the claim amount is used as an estimate of current UPB. On September 30, 2014, the active pipeline was $184.5 million, with a majority of unresolved repurchase and make-whole claims relating to loans sold to GSEs.

Generally, the amount of a loan subject to a repurchase/make-whole claim or with open MI issues remains in the active pipeline throughout the appeals process with a claimant until parties agree on the ultimate outcome. FHN reviews each claim and MI cancellation notice individually to determine the appropriate response by FHN (e.g. appeal, provide additional information, repurchase loan or remit make-whole payment, or reflect cancellation of MI).

In fourth quarter 2013 and in first quarter 2014, FHN entered into DRAs, discussed below in Repurchase Accrual Approach, to resolve certain selling representation and warranty repurchase obligations with the GSEs. The balances for these DRAs are disclosed in the settlement column of Table 21 Rollforward of the Active Pipeline and reflect the UPB of loans settled under the DRAs. Additionally, in third quarter 2014, FHN settled certain repurchase claims with a non-GSE third party who purchased certain GSE MSRs in connection with the mortgage divestiture in 2008. This settlement, which is reflected in the settlement column within Table 21 Rollforward of the Active Pipeline, resulted in an expense reversal of $4.3 million which is reflected as a reduction to the provision for repurchase and foreclosure losses in Table 22.

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The following tables provide a rollforward of the number and unpaid principal amount of loans in the active repurchase request pipeline, including related unresolved MI cancellation notices, MI curtailments, and other requests for the three and nine months ended September 30, 2014:

**Table 21 Rollforward of the Active Pipeline**

| | July 1, 2014 | | Inflows | | Resolutions | | Settlement (d) | | Adjustments (e) | | September 2014 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *in thousands)* | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | A |
| **hase/make whole requests:** | | | | | | | | | | | | |
| **(a)** | **373** | **$ 73,849** | **34** | **$ 5,430** | **(107)** | **$ (18,302)** | **(101)** | **$ (21,080)** | **(1)** | **$ (158)** | **198** | **$** |
| **C (a)** | **92** | **21,429** | **21** | **4,186** | **(25)** | **(5,804)** | **(69)** | **(16,277)** | | | **19** | |
| | **4** | **263** | **1** | **167** | **(3)** | **(361)** | | | | | **2** | |
| **gency whole lated** | **183** | **26,091** | **5** | **784** | **(6)** | **(530)** | | | **(1)** | **(298)** | **181** | |
| **cellations** | **145** | **30,024** | **41** | **6,705** | **(158)** | **(20,116)** | | | **23** | **(7,065)** | **51** | |
| **tailments (b)** | **407** | **71,112** | **170** | **28,502** | **(51)** | **(7,982)** | | | **7** | **2,167** | **533** | |
| **equests (c)** | **53** | **9,147** | **41** | **6,802** | **(68)** | **(11,398)** | | | **44** | **7,236** | **70** | |
| | **1,257** | **$ 231,915** | **313** | **$ 52,576** | **(418)** | **$ (64,493)** | **(170)** | **$ (37,357)** | **72** | **$ 1,882** | **1,054** | **$ 1** |

| | January 1, 2014 | | Inflows | | Resolutions | | Settlement (d) | | Adjustments (e) | | September 2014 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *in thousands)* | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | A |
| **hase/make whole requests:** | | | | | | | | | | | | |
| **(a)** | **301** | **$ 62,003** | **373** | **$ 68,804** | **(344)** | **$ (64,544)** | **(133)** | **$ (26,407)** | **1** | **$ (117)** | **198** | **$** |
| **C (a)** | **237** | **48,866** | **68** | **13,874** | **(188)** | **(36,306)** | **(100)** | **(22,765)** | **2** | **(135)** | **19** | |
| | **9** | **953** | **5** | **578** | **(12)** | **(1,462)** | | | | | **2** | |
| **gency whole lated** | **159** | **21,353** | **103** | **10,390** | **(79)** | **(5,333)** | | | **(2)** | **(363)** | **181** | |
| **cellations** | **140** | **28,239** | **325** | **59,103** | **(411)** | **(67,523)** | | | **(3)** | **(10,271)** | **51** | |
| **tailments (b)** | **52** | **12,517** | **532** | **89,287** | **(67)** | **(10,165)** | | | **16** | **2,160** | **533** | |
| **equests (c)** | **152** | **23,221** | **95** | **14,720** | **(233)** | **(30,145)** | **(8)** | **(1,634)** | **64** | **5,625** | **70** | |
| | **1,050** | **$ 197,152** | **1,501** | **$ 256,756** | **(1,334)** | **$ (215,478)** | **(241)** | **$ (50,806)** | **78** | **$ (3,101)** | **1,054** | **$ 1** |

The following tables provide a rollforward of the number and unpaid principal amount of loans in the active repurchase request pipeline, including related unresolved MI cancellation notices and other requests for the three and nine months ended September 30, 2013:

**Table 21 Rollforward of the Active Pipeline (Continued)**

| July 1, 2013 | Inflows | Resolutions | Settlement | Adjustments (e) |
|---|---|---|---|---|

| | | | | | | | | | | | September 30, 2013 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *llars in thousands)* | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amou |
| urchase/make whole requests: | | | | | | | | | | | | |
| MA | 610 | $ 130,146 | 650 | $ 114,823 | (572) | $ (112,955) | | $ | (3) | $ (988) | 685 | $ 131,0 |
| LMC | 126 | 25,469 | 174 | 41,111 | (131) | (30,242) | | | 2 | 669 | 171 | 37,0 |
| MA | 12 | 992 | 2 | 254 | (3) | (203) | | | | | 11 | 1,0 |
| Agency whole related | 134 | 20,431 | 37 | 5,458 | (21) | (3,749) | | | (1) | (243) | 149 | 21,8 |
| Cancellations | 114 | 23,180 | 77 | 15,832 | (71) | (14,913) | | | (7) | (918) | 113 | 23,1 |
| er requests (c) | 216 | 34,438 | 535 | 99,449 | (156) | (29,900) | | | (38) | (7,474) | 557 | 96,5 |
| l | 1,212 | $ 234,656 | 1,475 | $ 276,927 | (954) | $ (191,962) | | $ | (47) | $ (8,954) | 1,686 | $ 310,6 |

| | January 1, 2013 | | Inflows | | Resolutions | | Settlement | | Adjustments (e) | | September 30, 2013 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *llars in thousands)* | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amou |
| urchase/make whole requests: | | | | | | | | | | | | |
| MA | 1,078 | $ 217,648 | 1,981 | $ 399,936 | (2,333) | $ (476,785) | | $ | (41) | $ (9,773) | 685 | $ 131,0 |
| LMC | 198 | 46,321 | 365 | 82,596 | (392) | (92,154) | | | | 244 | 171 | 37,0 |
| MA | 8 | 628 | 9 | 1,440 | (9) | (1,082) | | | 3 | 57 | 11 | 1,0 |
| Agency whole related | 18 | 2,722 | 174 | 27,157 | (41) | (7,623) | | | (2) | (359) | 149 | 21,8 |
| Cancellations | 160 | 32,849 | 252 | 51,130 | (315) | (66,527) | | | 16 | 5,729 | 113 | 23,1 |
| er requests (c) | 189 | 33,647 | 868 | 164,941 | (457) | (93,864) | | | (43) | (8,211) | 557 | 96,5 |
| l | 1,651 | $ 333,815 | 3,649 | $ 727,200 | (3,547) | $ (738,035) | | $ | (67) | $ (12,313) | 1,686 | $ 310,6 |

Certain previously reported amounts have been reclassified to agree with current presentation.

(a) Inflows represent amounts excluded from the DRAs.

(b) Beginning in first quarter 2014, FHN began tracking MI curtailments as a separate category within the repurchase pipeline. During 2013 MI curtailments were included with Other requests.

(c) Other requests typically include requests for additional information from both GSE and non GSE purchasers. 2013 also included MI curtailments.

(d) Three and nine months ended September 30, 2014, include an $11.7 million settlement payment to a third party servicer.

(e) Generally, adjustments reflect reclassifications between repurchase requests and MI cancellation notices and/or updates to UPB.

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As of September 30, 2014, agencies accounted for a majority of the repurchase/make-whole requests in the active pipeline and 74 percent of the total active pipeline, inclusive of MI cancellation notices, MI curtailments, and all other claims. Beginning in first quarter 2014, FHN began tracking MI curtailments in a separate category within the pipeline. Prior to first quarter 2014 MI curtailments were included in the other requests category within the pipeline. Since MI curtailment requests are intended only to cover the shortfall in MI insurance proceeds, FHN s loss from MI curtailments as a percentage of UPB in the pipeline generally is significantly lower than that of a repurchase or make-whole claim.

For loans in the active pipeline for which FHN has received notification of MI cancellation, a majority relate to loans sold to GSEs. Consistent with originations, a majority of claims have been from Fannie Mae and Freddie Mac and 2007 represents the vintage with the highest volume of claims. Total new repurchase and make-whole claims from agencies decreased $146.4 million to $9.8 million in third quarter 2014 from third quarter 2013 reflecting the DRAs reached with two GSEs. Total MI cancellation notices received decreased $9.1 million to $6.7 million in third quarter 2014.

Resolutions disclosed in Table 21 Rollforward of the Active Pipeline include both favorable and unfavorable resolutions. The UPB of actual repurchases, make-whole requests, and settlement resolutions, which was $10.8 million and $60.9 million during third quarter 2014 and 2013, respectively, represents the UPB of loans for which FHN has incurred a loss on the actual repurchase of a loan, or where FHN has reimbursed a claimant for economic losses incurred. When loans are repurchased or make-whole payments have been made, the associated loss content on the repurchase, make-whole, or settlement resolution is reflected as a net realized loss in Table 22 Reserves for Repurchase and Foreclosure Losses.

Rescissions or denials, which were $14.2 million and $86.3 million in third quarter 2014 and 2013, respectively, represent the amount of repurchase requests and make-whole claims that FHN was able to resolve without incurring loss. Of the loans resolved in third quarter 2014 relating to actual repurchase or make-whole claims, FHN was successful in favorably resolving approximately 57 percent of the claims compared to 59 percent in third quarter 2013. Resolutions related to other, MI cancellations, MI curtailments, and information requests, which were $39.5 million and $44.8 million during third quarter 2014 and 2013, respectively, include providing information to the claimant, issues related to MI coverage, and other items. Resolutions in this category include both favorable and unfavorable outcomes with MI companies, including situations where MI was ultimately cancelled. FHN does not realize loss (a decrease of the repurchase and foreclosure liability) for loans with MI issues unless a request for repurchase, or for make-whole or loss reimbursement, is submitted and such request is unfavorably resolved.

**Repurchase Accrual Methodology**

Over the past several years FHN s approach for determining the adequacy of the repurchase and foreclosure reserve has evolved based on information available including estimated loss content within the active pipeline, loss content associated with loans in which MI coverage was ultimately lost, information made available by Fannie Mae to FHN which provided significant insight into their file selection and review process for loans previously sold by FHN to Fannie Mae with repurchase risk, as well as information received in connection with definitive resolution agreements ( DRAs ) that FHN entered into with Fannie Mae and Freddie Mac in fourth quarter 2013 and first quarter 2014, respectively. Cumulative average loss severities range between 50 and 60 percent of the UPB subject to repurchase/make-whole. Repurchase rates vary based on investor, vintage, and claim type.

Repurchase Accrual Approach

Throughout 2013, FHN revised its loss estimate associated with repurchase obligations for loans sold to Fannie Mae and Freddie Mac based on quarterly information received from Fannie Mae, until entering into the DRA mentioned above. Until fourth quarter 2013, loss estimates for Freddie Mac were extrapolated from information on FHN s Fannie Mae exposure.

In first and second quarters 2013, FHN first analyzed and estimated the loss content associated with outstanding repurchase/make-whole claims currently in the active pipeline. Then, FHN estimated probable losses associated with projected requests from Fannie Mae. The ability to project repurchase requests from Fannie Mae resulted from information provided by Fannie Mae that segmented the population of FHN loans into three categories: 1) loans that then were currently selected for review, 2) liquidated loans that then were likely to be selected for review in the future, and 3) seriously delinquent loans that then were likely to be selected for review in the future. Fannie Mae also provided FHN with its average historical repurchase request rates for loans after they had been selected for review. FHN utilized this information to estimate the average historical repurchase rate on the three segments described above that could have resulted in future repurchase requests from Fannie Mae. FHN s historical average cumulative loss severities and repurchase rates were then applied to the projected repurchase requests to estimate the associated probable losses.

Prior to third quarter 2013, FHN s repurchase loss estimate for loans sold to the GSEs focused on loans sold from 2005 through 2008. In the fourth quarter of 2013, as mentioned above, FHN entered into a DRA with Fannie Mae. In February 2014, as mentioned above, FHN entered into a DRA with Freddie Mac. Each DRA resolved certain legacy selling representation and warranty repurchase obligations associated with loans originated from 2000 to 2008 excluding certain loans FHN no longer serviced at the time of the

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DRA. Under each DRA FHN remains responsible for repurchase obligations related to certain excluded defects (such as title defects and violations of the GSE s Charter Act) and FHN continues to have obligations related to mortgage insurance rescissions, cancellations, curtailments and denials. With respect to loans where there has been a prior bulk sale of servicing, FHN is not responsible for mortgage insurance cancellations and denials to the extent attributable to the acts of the current servicer.

Repurchase obligations and estimates for probable incurred losses associated with loan populations not included in the DRAs, including obligations related to future mortgage insurance cancellations, loans previously included in bulk servicing sales, and other loan sales, are included in FHN s remaining repurchase liability as of September 30, 2014.

In the first three quarters of 2014, in determining the loss content of GSE loans subject to repurchase requests excluded from the DRA settlements mentioned above (bulk sales), FHN applies a vintage level estimate of all loans sold to the GSEs that were not included in the settlements and which have not had a prior repurchase resolution. First pre-payment, default, and claim rate estimates are applied by vintage to estimate the aggregate claims expected but not yet resolved. Historical loss factors for each sale vintage and repurchase rates are then applied to estimate total loss content. Loss content related to other whole loan sales is estimated by applying the historical average repurchase and loss severity rates to the current UPB in the active pipeline to calculate estimated losses attributable to the current pipeline. FHN then uses an internal model to calculate loss content on estimated future inflows by applying historical average loss repurchase and severity rates to historical average inflows. For purposes of estimating loss content, FHN also considers MI cancellations. When assessing loss content related to loans where MI has been cancelled, FHN applies historical loss factors (including probability and loss severity ratios) to the total unresolved MI cancellations in the active pipeline, as well as applying these factors to historical average inflows to estimate loss content. Additionally, FHN identifies estimated losses related to MI curtailment requests.

Management continually monitors the repurchase pipeline, including inflows, rescission and loss severity rates, and resolutions, as well as other factors in consideration of the overall adequacy of the repurchase liability.

Repurchase and Foreclosure Liability

FHN compares the estimated probable incurred losses determined under the applicable loss estimation approaches described above for the respective periods with current reserve levels. Changes in the estimated required liability levels are recorded as necessary through the repurchase and foreclosure provision. There are certain second liens and HELOCs subject to repurchase claims that are not included in the active pipeline as these loans were originated and sold through different channels. Liability estimation for potential repurchase obligations related to these second liens and HELOCs was determined outside of the methodology for loans originated and sold through the national legacy mortgage origination platform and were not material as of third quarter 2014 and 2013.

The following table provides a rollforward of the legacy mortgage repurchase liability during the three and nine months ended September 30, 2014 and 2013:

**Table 22 Reserves for Repurchase and Foreclosure Losses**

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **2014** | 2013 | **2014** | 2013 |
| **Legacy Mortgage** | | | | |

| | | | | |
|---|---|---|---|---|
| Beginning balance | **$ 140,908** | $ 122,724 | **$ 165,091** | $ 232,390 |
| Provision for repurchase and foreclosure losses | **(4,300)** | 200,000 | **(4,300)** | 200,000 |
| Net realized losses | **(11,136)** | (28,995) | **(35,319)** | (138,661) |
| Balance on September 30 | **$ 125,472** | $ 293,729 | **$ 125,472** | $ 293,729 |

The liability for legacy mortgage repurchase and foreclosure losses was $125.5 million and $293.7 million as of September 30, 2014 and 2013, respectively. In third quarter 2014 FHN recognized a reduction to the repurchase and foreclosure provision of $4.3 million related to the settlement of certain repurchase claims. In third quarter 2013, FHN recorded an expense of $200.0 million to the repurchase and foreclosure provision related to the resolution of certain legacy representations and warranty mortgage loan repurchase obligations to a GSE.

Net realized losses for the repurchase of first lien loans or make-whole payments were $11.1 million during third quarter 2014 compared with $29.0 million during third quarter 2013, reflecting the impact of the DRA entered into in first quarter 2014. FHN had a 35 percent loss severity rate compared to a 51 percent loss severity rate in third quarter 2013.

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Generally, repurchased loans are included in loans HFS and recognized at fair value at the time of repurchase, which contemplates the loan s performance status and estimated liquidation value. The UPB of loans that were repurchased during third quarter 2014 was $.8 million compared with $17.8 million during third quarter 2013. FHN has elected to continue recognition of these loans at fair value in periods subsequent to reacquisition. After the loan repurchase is completed, classification (performing versus nonperforming) of the repurchased loans is determined based on an additional assessment of the credit characteristics of the loan in accordance with FHN s internal credit policies and guidelines consistent with other loans FHN retains on the balance sheet, except that if a loan is delinquent when repurchased it is immediately classified as nonperforming.

**Government-Backed Mortgage Lending Programs**

FHN originates mortgage loans eligible for VA guarantees or FHA insurance. Those lending activities were substantially larger prior to September 2008, when FHN sold its national mortgage business. In connection with those programs FHN made certain representations and warranties as to the compliance of the loans with program requirements. FHN has potential exposure to claims by government agencies, as well as by private parties asserting claims on behalf of agencies, based on allegations of non-compliance. Such claims can involve demands for enhanced damages in excess of actual loss.

Since second quarter 2012 FHN has been cooperating with the U.S. Department of Justice ( DOJ ) and the Office of the Inspector General for the Department of Housing and Urban Development ( HUD ) in a civil investigation regarding compliance with requirements relating to certain FHA-insured loans. During second quarter 2013 DOJ and HUD provided FHN with preliminary findings of the investigation, which focused on a small sample of loans and remained incomplete. FHN completed its own analysis of the sample and has provided information to DOJ and HUD. Discussions between the parties are continuing as to various matters, including certain factual information. The investigation could lead to a demand under the federal False Claims Act and the federal Financial Institutions Reform, Recovery, and Enforcement Act of 1989, which allow treble and other special damages substantially in excess of actual losses. Currently FHN is not able to predict the eventual outcome of this matter. In anticipation of future discussions between the parties, this investigation has been added to those matters for which a liability has been established. Additional information concerning this matter is provided in this Quarterly Report in Note 11 Contingencies and Other Disclosures.

**Other FHN Mortgage Exposures and Trends**

Although FHN has received no repurchase requests from the trustee of FH proprietary securitizations, as described in Note 11 Contingencies and Other Disclosures, FHN is defending several lawsuits by investors in FH proprietary securitizations. As of September 30, 2014, the repurchase request pipeline contained no repurchase requests related to FH proprietary first lien securitizations based on breaches of representations and warranties to the trustee.

In addition, also as described in Note 11, many non-GSE purchasers of whole loans from FHN included those loans in their own securitizations. In such other whole loan sales FHN made representations and warranties concerning the loans sold and provided indemnity covenants to the purchaser/securitizer. Typically the purchaser/securitizer assigned key contractual rights against FHN to the securitization trustee. Currently the following categories of actions are pending which involve FHN and non-GSE whole-loan sales: (i) FHN has received indemnification requests from purchasers of loans or their assignees in cases where FHN is not a defendant; (ii) FHN has received subpoenas seeking loan reviews in cases where FHN is not a defendant; (iii) FHN has received repurchase demands from purchasers or their assignees; and (iv) FHN is a defendant in legal actions involving FHN-originated loans.

**MARKET UNCERTAINTIES AND PROSPECTIVE TRENDS**

Uncertainties remain surrounding the national economy, the housing market, Fed monetary policy, the regulatory and political environment, U.S. government spending generally, and economic and political situations outside the U.S. Those uncertainties will continue to present challenges for FHN. Although during the first three quarters of 2014 the national economy exhibited signs of improvement, improvement has been uneven. Certain indicators have been mixed and economic conditions, which remain stressed, could regress. While asset quality at FHN is strong due to active risk management and borrower adjustment to the prolonged difficult operating environment, external factors may result in increased credit costs and loan loss provisioning and could also suppress loan demand from borrowers and further increase competition among financial institutions resulting in continued pressure on net interest income. Additionally, despite resolving certain selling representation and warranties repurchase obligations to GSEs, the ongoing economic stress and uncertainty in the housing market could affect borrower defaults and actions by MI companies resulting in elevated repurchase requests from GSEs and third party whole loan purchasers relative to current projections or could impact losses recognized by investors in FH proprietary securitizations which could result in repurchase losses or litigation. See the Repurchase and Related Obligations from Loans Originated for Sale section and Critical Accounting Policies within this MD&A, and Note 11 Contingencies and Other Disclosures within this report for additional discussion regarding FHN s repurchase obligations.

Although FHN has little direct exposure to non-U.S.-dollar-denominated assets or to foreign sovereign debt, major adverse events outside the U.S. could have an indirect impact on FHN. Because the U.S. economy and the businesses of many of our customers are linked significantly to global economic and market conditions, a major adverse event could negatively impact liquidity in the U.S. causing funding costs to rise, or could potentially limit availability of funding through conventional markets in a worst-case scenario. FHN also could be adversely affected by events outside of the U.S. impacting hedging or other counterparties, customers with non-U.S. businesses and/or assets denominated in foreign currencies, the U.S. economy, interest rates, inflation/deflation rates, and the regulatory environment should there be a political response to major financial disruptions, all of which could have a financial impact on FHN.

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## Regulatory Matters

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ( Reform Act ) made a substantial number of significant changes to how financial services companies are regulated. Many of the changes in the Reform Act continue to be incomplete, or are dependent upon new regulations to be issued or interpreted in the future. It could be several more years before all the impacts are known. Overall, the Reform Act and its regulations have increased FHN s regulatory compliance and certain other costs, and have constrained operations and revenues in some respects. FHN believes that additional impacts of this sort are likely as additional parts of the Act are implemented.

In 2013, regulators adopted enhancements to U.S. capital standards based on international standards known as Basel III . The revised standards create a new emphasis on Common Equity Tier 1 Capital, modify eligibility criteria for regulatory capital instruments, and modify the methodology for calculating risk-weighted assets. The revised standards will begin applying to FHN January 1, 2015. Since the standards are new, a number of interpretive questions remain unresolved. Had the final rule been fully phased in and effective as of September 30, 2014, FHN estimates that it would have remained a well-capitalized institution. Under the final rule as fully phased in, based on a preliminary assessment, the Common Equity Tier 1 Capital ratio at September 30, 2014, would have decreased by approximately 40 basis points had the amended rule been in effect.

In July 2013, a federal district court ruled that the Federal Reserve exceeded its authority under the so-called Durbin amendment of the Reform Act in setting debit card interchange rates in 2011. The Federal Reserve s action had reduced prevailing market rates substantially by capping them generally at 21 cents per transaction. The district court held that rate cap to be higher than the Reform Act allowed, among other rulings against the Federal Reserve s 2011 actions. In March 2014, the district courts ruling was reversed by a three-judge appellate panel. Further proceedings are possible before the case is finally resolved. During 2013 and the first nine months of 2014, FHN s revenues from debit card interchange fees averaged just over $5 million per quarter.

## Governmental Litigation Environment

Like many other banks involved in mortgage lending prior to 2009, FHN is defending various legal actions, and may be facing the possibility of still others, primarily connected with the origination and the sale, securitization, or government insurance of residential mortgage loans. In many of those actions a governmental agency or government-insured agent is or may become the plaintiff. Refer to Note 11 Contingencies and Other Disclosures for additional information about those pending and prospective matters directly involving FHN. Over the past several quarters there have been several significant settlements, or reports of potential settlements, with governmental entities that have been publicly reported or publicly announced by several large financial institutions. The trend of large settlements with governmental entities may adversely affect the outcomes for other financial institutions in similar actions, especially where governmental officials have announced that the large settlements will be used as the basis or a template for other settlements.

As discussed in Note 11 Contingencies and Other Disclosures, many of the governmental actions, investigations, and claims involving FHN remain in relatively early stages. However, recent reports of financial institution settlements involving governmental entities suggest that pressure from governmental entities has increased somewhat this year and is not likely to abate significantly, at least in the near term.

## Foreclosure Practices

Since 2009 governmental officials and agencies have scrutinized industry foreclosure practices, particularly in judicial foreclosure states and have since expanded to include non-judicial foreclosure and loss mitigation practices including the effective coordination by servicers of foreclosure and loss mitigation activities. All of the changes to servicing practices including the additional oversight required arising out of this activity including those described below could impact FHN through increased operational and legal costs. FHN continues to review, monitor and revise, as appropriate, its foreclosure processes and coordinated loss mitigation practices with the goal of conforming them to evolving servicing requirements.

FHN s national mortgage and servicing platforms were sold in August 2008 and the related servicing activities, including foreclosure and loss mitigation practices that were not transferred in 2008, were outsourced through a three-year subservicing arrangement (the 2008 subservicing agreement ) with the platform buyer (the 2008 subservicer ). The 2008 subservicing agreement expired in 2011 when FHN entered into a replacement agreement with a new subservicer (the 2011 subservicer ). In fourth quarter 2013, FHN contracted to sell a substantial majority of its remaining servicing obligations and servicing assets (including advances) to the 2011 subservicer. The servicing was transferred to the buyer in stages, and was substantially completed in first quarter 2014. The servicing still retained by FHN continues to be subserviced by the 2011 subservicer.

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In 2011 regulators entered into consent decrees with several institutions requiring comprehensive revision of loan modification and foreclosure processes, including the remediation of borrowers that have experienced financial harm. The 2008 subservicer was subject to a consent decree and its parent company agreed to pay related monetary sanctions, among other things. In 2012, the 2008 subservicer, along with certain others, entered into a settlement agreement with the OCC which replaced the consent decree.

Under FHN s 2008 subservicing agreement, the 2008 subservicer had the contractual right to follow FHN s prior servicing practices as they existed 180 days prior to August 2008 until the 2008 subservicer became aware that such practices did not comply with applicable servicing requirements, subject to subservicer s obligation to follow accepted servicing practices, applicable law, and new requirements, including evolving interpretations of such practices, law and requirements. FHN cannot predict the amount of additional operating costs related to foreclosure delays, including required process changes, increased default services, extended periods of servicing advances and the recoverability of such advances, legal expenses, or other costs that may be incurred as a result of the internal reviews or external actions. In the event of a dispute such as that described below between FHN and the 2008 subservicer over any liabilities for the 2008 subservicer s servicing and management of foreclosure or loss mitigation processes, FHN cannot predict the costs that may be incurred.

FHN s 2008 subservicer has presented invoices and made demands under the 2008 subservicing agreement, totaling $8.6 million, that FHN pay certain costs related to tax service contracts, miscellaneous transfer costs and servicing timeline penalties, compensatory damages, and curtailments charged by GSEs and a government agency prior to FHN s transfer of subservicing to its 2011 subservicer. The 2008 subservicer also is seeking reimbursement from FHN for expenditures the 2008 subservicer has incurred or anticipates it will incur under the consent decree and supervisory guidance relating to foreclosure review (collectively, foreclosure review expenditures ). The foreclosure review expenditures for which the 2008 subservicer has sought reimbursement total $34.9 million. Although the most recent request was made in 2012, additional reimbursement requests may be made. FHN disagrees with the 2008 subservicer s position and has made no reimbursements. In the event that the 2008 subservicer pursues its position through litigation, FHN believes it has meritorious defenses and intends to defend itself vigorously. FHN also believes that certain amounts billed to FHN by agencies for penalties and curtailments on claims by MI insurers for actions by the 2008 subservicer prior to the 2011 subservicing transfer but billed after that date are owed by the 2008 subservicer. This disagreement has the potential to result in litigation and, in any such future litigation, the claim against FHN may be substantial.

FHN anticipates continued compliance challenges relating to foreclosure, loss mitigation and servicing practices in connection with its efforts to comply with regulations and standards issued by the OCC and the Bureau including those relating to vendor management and changes in applicable state law relating to foreclosure and loss mitigation.

## CRITICAL ACCOUNTING POLICIES

There have been no significant changes to FHN s critical accounting policies as described in Critical Accounting Policies beginning on page 61 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2013, which section is incorporated into this report by this reference.

## ACCOUNTING STANDARDS UPDATES ISSUED BUT NOT CURRENTLY EFFECTIVE

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, and will be applied retrospectively to all periods presented. Early adoption is permitted. FHN is evaluating the effects of ASU 2014-01 on its portfolio of low income housing investments.

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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 property 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 can elect 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. Early adoption is permitted. FHN is evaluating the requirements of ASU 2014-04 with respect to its current foreclosure accounting practices.

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. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not 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.

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.

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 2014-14, 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 it 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 and interim 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 currently classifies foreclosed properties with government guarantees within other real estate owned and is evaluating the transition alternatives.

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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, 2015 and all interim and annual periods thereafter. The provisions of ASU 2014-15 are not anticipated to affect FHN.

## NON-GAAP INFORMATION

The following table provides a reconciliation of non-GAAP items presented in this MD&A to the most comparable GAAP presentation:

**Table 23 Non-GAAP to GAAP Reconciliation**

| | September 30 | | December 31 |
|---|---|---|---|
| *(Dollars in thousands)* | **2014** | 2013 | 2013 |
| **Tier 1 Common (Non-GAAP)** | | | |
| (A) Tier 1 capital (a) | **$ 2,783,147** | $ 2,555,141 | $ 2,618,976 |
| Less: Noncontrolling interest FTBNA preferred stock (b) | **294,816** | 294,816 | 294,816 |
| Less: Preferred stock | **95,624** | 95,624 | 95,624 |
| Less: Trust preferred (c) | **200,000** | 200,000 | 200,000 |
| (B) Tier 1 common (Non-GAAP) | **$ 2,192,707** | $ 1,964,701 | $ 2,028,536 |
| **Risk Weighted Assets** | | | |
| (C) Risk weighted assets (a) | **$ 19,238,109** | $ 19,236,794 | $ 18,878,594 |
| **Total Assets** | | | |
| (D) Total assets (GAAP) | **$ 23,986,787** | $ 23,858,753 | $ 23,789,833 |
| **Ratios** | | | |
| (B)/(C) Tier 1 common to risk weighted assets (Non-GAAP) | **11.40%** | 10.21% | 10.75% |
| (A)/(D) Tier 1 capital to total assets (GAAP) | **11.60%** | 10.71% | 11.01% |

Certain previously reported amounts have been reclassified to agree with current presentation.

(a) Defined by and calculated in conformity with bank regulations currently applicable to FHN and FTBNA.
(b) Represents FTBNA preferred stock included in noncontrolling interest. Included in Total equity on the Consolidated Condensed Statements of Condition.
(c) Included in Term borrowings on the Consolidated Condensed Statements of Condition.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

The information called for by this item is contained in

(a) Management s Discussion and Analysis of Financial Condition and Results of Operations included as Item 2 of Part I of this report, including in particular the section entitled Risk Management beginning on page 108 of this report and the subsections entitled Market Risk Management beginning on page 108 and Interest Rate Risk Management beginning on page 110 of this report,

(b) Note 15 to the Consolidated Condensed Financial Statements appearing on pages 53-58 of this report,

(c) Management s Discussion and Analysis of Financial Condition and Results of Operations appearing in FHN s 2013 Annual Report to shareholders, including in particular the section entitled Risk Management beginning on page 42 of that Report and the subsections entitled Market Risk Management beginning on page 43 and Interest Rate Risk Management appearing on pages 46-48 of that Report, and

(d) Note 25 to the Consolidated Financial Statements appearing on pages 184-190 of FHN s 2013 Annual Report to shareholders,

all of which materials are incorporated herein by reference. FHN s Management s Discussion and Analysis of Financial Condition and Results of Operations, Consolidated Financial Statements, and related Notes appearing in FHN s 2013 Annual Report to shareholders all were filed as part of Exhibit 13 to FHN s annual report on Form 10-K for the year ended December 31, 2013. Portions of the Annual Report not incorporated herein by reference are deemed not to be filed with the Commission with this report.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. FHN s management, with the participation of FHN s chief executive officer and chief financial officer, has evaluated the effectiveness of FHN s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this quarterly report. Based on that evaluation, the chief executive officer and the chief financial officer have concluded that FHN s disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in Internal Control over Financial Reporting. There have not been any changes in FHN s internal control over financial reporting during FHN s last fiscal quarter that have materially affected, or are reasonably likely to materially affect, FHN s internal control over financial reporting.

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Part II.

OTHER INFORMATION

Item 1 Legal Proceedings

The Contingencies section of Note 11 to the Consolidated Condensed Financial Statements beginning on page 33 of this Report is incorporated into this Item by reference.

Item 1A Risk Factors

The following paragraphs supplement and update the risk factor captioned *Legacy Mortgage Business Risks* in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013:

**In 2014 several large purchasers of mortgage-backed securities filed suits against the trustees for those securitizations asserting new theories of liability.** The trustee of our securitizations is one of the defendants in such a suit, and many of our securitizations are among those alleged to have been purchased by the plaintiffs. The claims for damages are based in part on allegations that the trustee did not properly or timely act against the originators of the securitizations or the servicers of the loans, and further assert that the trustee had affirmative duties to act which were not set forth in the legal trust documents. Some of the legal theories advanced are untested or unsettled. Although we are not a defendant in these proceedings, these complex suits may progress or evolve so as to compel us to defend ourselves, and could create financial exposure for us.

**Increasingly, governmental entities have become key participants in proceedings, investigations, and settlements involving banking institutions that engaged in substantial mortgage activities before the financial crisis in 2008.** Governmental entities are plaintiffs or potential plaintiffs in certain of the legal proceedings in which we are involved related to our former mortgage businesses, and we may face future actions or claims by governmental entities. Recently, significant settlements with governmental entities have been publicly announced by several large national and regional financial institutions. The trend of large settlements with governmental entities may adversely affect the outcomes for other financial institutions in similar actions, especially where governmental officials have announced that the large settlements will be used as the basis or a template for other settlements. Additional information concerning pending or currently known proceedings and investigations, all of which is incorporated into this Item by this reference, is set forth under the captions Inquiry regarding FHA-Insured Loans, First Horizon-Branded Mortgage Securitization Litigation Matters, Contract Claim Settlement Process Mortgage Repurchase Pipeline, and Legacy Home Loan Sales and Servicing, all in Note 18 Contingencies and Other Disclosures beginning on page 135 of our 2013 Annual Report, which is part of the material from that Report that was incorporated by reference into Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

(a) & (b) Not Applicable

(c) The table captioned Issuer Purchases of Common Stock, including the explanatory notes, is incorporated herein by reference to Table 9 and explanatory notes included in Item 2 of Part I of this report under the heading First Horizon National Corporation Management s Discussion and Analysis of Financial Condition and Results of Operations, on page 97 of this report.

Items 3, 4, and 5

Not applicable

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Item 6. Exhibits
(a) Exhibits

Any exhibits marked * represent management contracts or compensatory plans or arrangements required to be identified as such and filed as exhibits.

Any exhibits marked ** are furnished pursuant to 18 U.S.C. Section 1350 and are not filed as part of this Report or as a separate disclosure document.

Any exhibits marked *** contain or consist of interactive data file information which is unaudited and unreviewed.

In many agreements filed as exhibits, each party makes representations and warranties to other parties. Those representations and warranties are made only to and for the benefit of those other parties in the context of a business contract. Such representations and warranties may be partially or fully waived by such parties, or not enforced by such parties, in their discretion. No such representation or warranty may be relied upon by any other person for any purpose.

| Exhibit No. | Description |
|---|---|
| 3.1 | Bylaws of First Horizon National Corporation, as amended and restated October 21, 2014, incorporated herein by reference to Exhibit 3.1 to FHN s Current report on Form 8-K dated October 20, 2014. |
| 4 | FHN agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument defining the rights of the holders of the senior and subordinated long-term debt of FHN and its consolidated subsidiaries. |
| 10.1* | Rate Applicable to Participating Directors and Executive Officers under the Directors and Executives Deferred Compensation Plan. |
| 13 | The Interest Rate Risk Management subsection of the Management s Discussion and Analysis of Financial Condition and Results of Operations section and the Interest Rate Risk Management subsection of Note 25 to FHN s consolidated financial statements, contained, respectively, at pages 46-48 and pages 186-188 in FHN s 2013 Annual Report to shareholders, which material is incorporated herein by reference. That Report was furnished to shareholders in connection with the Annual Meeting of Shareholders on April 29, 2014 and portions of that Report, including those portions incorporated herein by reference, were filed by FHN as part of Exhibit 13 to its annual report on Form 10-K for the year ended December 31, 2013. Portions of the Annual Report not incorporated herein by reference are deemed not to be filed with the Commission with this report. |
| 31(a) | Rule 13a-14(a) Certifications of CEO (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002) |
| 31(b) | Rule 13a-14(a) Certifications of CFO (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002) |
| 32(a)** | 18 USC 1350 Certifications of CEO (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002) |
| 32(b)** | 18 USC 1350 Certifications of CFO (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002) |
| 101*** | The following financial information from First Horizon National Corporation s Quarterly Report on Form-10Q for the quarter ended September 30, 2014, formatted in XBRL: (i) Consolidated Condensed Statements of Condition (Unaudited) at September 30, 2014 and 2013, and December |

| | |
|---|---|
| | 31, 2013; (ii) Consolidated Condensed Statements of Income (Unaudited) for the Three and Nine Months Ended September 30, 2014 and 2013; (iii) Consolidated Condensed Statements of Comprehensive Income (Unaudited) for the Three and Nine Months Ended September 30, 2014 and 2013; (iv) Consolidated Condensed Statements of Equity (Unaudited) for the Nine Months Ended September 30, 2014 and 2013; (v) Consolidated Condensed Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2014 and 2013; (vi) Notes to Consolidated Condensed Financial Statements (Unaudited). |
| 101.INS*** | XBRL Instance Document |
| 101.SCH*** | XBRL Taxonomy Extension Schema |
| 101.CAL*** | XBRL Taxonomy Extension Calculation Linkbase |

| | |
|---|---|
| 101.LAB*** | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE*** | XBRL Taxonomy Extension Presentation Linkbase |
| 101.DEF*** | XBRL Taxonomy Extension Definition Linkbase |

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## SIGNATURES

Pursuant to the requirements 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.

FIRST HORIZON NATIONAL CORPORATION
(Registrant)

| | | |
|---|---|---|
| DATE: November 6, 2014 | By: | /s/ William C. Losch III |
| | Name: | William C. Losch III |
| | Title: | Executive Vice President and Chief Financial Officer<br>(Duly Authorized Officer and Principal Financial Officer) |

EXHIBIT INDEX

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