FIRST HORIZON NATIONAL CORP
Form 10-Q
November 07, 2007

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

(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, 2007

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

CIK number 0000036966

FIRST HORIZON NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Tennessee (State or other jurisdiction of incorporation or organization)	62-0803242 (I.R.S. Employer Identification No.)
165 Madison Avenue, Memphis, Tennessee (Address of principal executive offices)	38103 (Zip Code)

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

(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.

Yes x No____

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

_x_ Large accelerated filer ____ Accelerated filer ____ Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes ____ No_x__

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.

Common Stock, $.625 par value	126,387,854
Class	Outstanding on September 30, 2007

FIRST HORIZON NATIONAL CORPORATION

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PART I.

FINANCIAL INFORMATION

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

CONSOLIDATED CONDENSED STATEMENTS OF CONDITION

First Horizon National Corporation

(Dollars in thousands)(Unaudited)	September 30 **2007**	September 30 2006	December 31 2006
Assets:			
Cash and due from banks	**$ 936,707**	$ 872,528	$ 943,555
Federal funds sold and securities purchased under agreements to resell	**1,096,624**	1,992,426	1,202,537
Total cash and cash equivalents	**2,033,331**	2,864,954	2,146,092
Investment in bank time deposits	**30,993**	17,798	18,037
Trading securities	**1,734,653**	2,512,744	2,230,745
Loans held for sale	**2,900,464**	2,798,281	2,873,577
Loans held for sale-divestiture	**565,492**	-	-
Securities available for sale	**3,076,120**	4,013,634	3,923,215
Securities held to maturity (fair value of $241 on September 30, 2007; $373 on September 30, 2006; and $272 on December 31, 2006)	**240**	369	269
Loans, net of unearned income	**21,973,004**	21,955,030	22,104,905
Less: Allowance for loan losses	**236,611**	206,829	216,285
Total net loans	**21,736,393**	21,748,201	21,888,620
Mortgage servicing rights, net	**1,470,589**	1,498,341	1,533,942
Goodwill	**267,228**	274,534	275,582
Other intangible assets, net	**58,738**	70,546	64,530
Capital markets receivables	**1,219,720**	1,027,927	732,282
Premises and equipment, net	**411,515**	441,659	451,708
Real estate acquired by foreclosure	**75,656**	65,224	63,519
Discontinued assets	**-**	939,728	416
Other assets	**1,874,497**	1,802,243	1,715,725
Other assets-divestiture	**22,623**	-	-
Total assets	**$ 37,478,252**	$ 40,076,183	$ 37,918,259
Liabilities and shareholders' equity:			
Deposits:			
Savings	**$ 3,592,732**	$ 3,256,680	$ 3,354,180
Time deposits	**2,822,792**	2,906,424	2,924,050
Other interest-bearing deposits	**1,674,624**	1,742,276	1,969,700
Interest-bearing deposits-divestiture	**361,368**	-	-
Certificates of deposit $100,000 and more	**5,142,169**	11,920,226	6,517,629
Certificates of deposit $100,000 and more-divestiture	**41,037**	-	-

Interest-bearing	**13,634,722**	19,825,606	14,765,559
Noninterest-bearing	**4,928,233**	5,458,935	5,447,673
Noninterest-bearing-divestiture	**72,404**	-	-
Total deposits	**18,635,359**	25,284,541	20,213,232
Federal funds purchased and securities sold under agreements to repurchase	**4,039,827**	2,416,974	4,961,799
Trading liabilities	**543,060**	847,453	789,957
Commercial paper and other short-term borrowings	**2,396,316**	926,292	1,258,513
Term borrowings	**6,015,954**	5,226,772	5,243,961
Other collateralized borrowings	**784,599**	260,416	592,399
Total long-term debt	**6,800,553**	5,487,188	5,836,360
Capital markets payables	**1,053,349**	989,332	799,489
Discontinued liabilities	**-**	6,977	6,966
Other liabilities	**1,253,295**	1,311,628	1,294,283
Other liabilities-divestiture	**39,389**	-	-
Total liabilities	**34,761,148**	37,270,385	35,160,599
Preferred stock of subsidiary	**295,277**	295,274	295,270
Shareholders' equity			
Preferred stock - no par value (5,000,000 shares authorized, but unissued)	**-**	-	-
Common stock - $.625 par value (shares authorized - 400,000,000; shares issued and outstanding - 126,387,854 on September 30, 2007; 124,467,143 on September 30, 2006; and 124,865,982 on December 31, 2006)	**78,992**	77,792	78,041
Capital surplus	**360,016**	301,857	312,521
Undivided profits	**2,048,689**	2,124,312	2,144,276
Accumulated other comprehensive (loss)/ income, net	**(65,870)**	6,563	(72,448)
Total shareholders' equity	**2,421,827**	2,510,524	2,462,390
Total liabilities and shareholders' equity	**$ 37,478,252**	$ 40,076,183	$ 37,918,259

See accompanying notes to consolidated condensed financial statements.
Certain previously reported amounts have been reclassified to agree with current presentation.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	First Horizon National Corporation			
	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands except per share data)(Unaudited)	**2007**	2006	**2007**	2006
Interest income:				
Interest and fees on loans	**$ 413,275**	$ 416,898	**$ 1,236,956**	$ 1,173,832
Interest on investment securities	**44,990**	54,138	**146,365**	132,024
Interest on loans held for sale	**66,570**	72,135	**191,338**	224,309
Interest on trading securities	**41,898**	44,850	**132,530**	126,963
Interest on other earning assets	**16,002**	24,577	**53,634**	67,421
Total interest income	**582,735**	612,598	**1,760,823**	1,724,549
Interest expense:				
Interest on deposits:				
Savings	**29,140**	25,083	**85,090**	62,256
Time deposits	**34,745**	32,090	**101,337**	86,544
Other interest-bearing deposits	**6,179**	6,562	**19,876**	18,474
Certificates of deposit $100,000 and more	**92,557**	130,875	**309,463**	360,239
Interest on trading liabilities	**10,295**	19,233	**40,928**	57,503
Interest on short-term borrowings	**75,114**	66,871	**211,210**	190,495
Interest on long-term debt	**96,901**	80,263	**278,264**	198,098
Total interest expense	**344,931**	360,977	**1,046,168**	973,609
Net interest income	**237,804**	251,621	**714,655**	750,940
Provision for loan losses	**43,352**	23,694	**116,246**	60,146
Net interest income after provision for loan losses	**194,452**	227,927	**598,409**	690,794
Noninterest income:				
Capital markets	**63,722**	95,215	**235,889**	290,238
Mortgage banking	**39,022**	85,935	**183,419**	283,089
Deposit transactions and cash management	**44,863**	44,503	**127,300**	125,282
Revenue from loan sales and securitizations	**4,774**	11,830	**24,052**	35,399
Insurance commissions	**6,747**	10,534	**24,210**	37,681
Trust services and investment management	**9,922**	9,609	**30,238**	31,090
Equity securities gains, net	**-**	8,757	**2,967**	10,271
Debt securities gains/(losses), net	**-**	-	**6,292**	(78,902)
All other income and commissions	**34,425**	51,544	**132,595**	116,401
Total noninterest income	**203,475**	317,927	**766,962**	850,549
Adjusted gross income after provision for loan losses	**397,927**	545,854	**1,365,371**	1,541,343
Noninterest expense:				
Employee compensation, incentives and benefits	**236,683**	260,351	**741,217**	766,288
Occupancy	**34,778**	29,745	**96,964**	87,372
Equipment rentals, depreciation and maintenance	**17,270**	17,893	**56,674**	56,015
Operations services	**18,774**	17,976	**54,052**	52,491

Communications and courier	**10,959**	12,950	**33,245**	41,271
Amortization of intangible assets	**2,647**	3,233	**8,095**	9,002
Goodwill impairment	**13,010**	-	**13,010**	-
All other expense	**87,501**	110,751	**278,617**	298,552
Total noninterest expense	**421,622**	452,899	**1,281,874**	1,310,991
(Loss)/ income before income taxes	**(23,695)**	92,955	**83,497**	230,352
(Benefit)/provision for income taxes	**(9,330)**	25,776	**5,611**	55,830
(Loss)/ income from continuing operations	**(14,365)**	67,179	**77,886**	174,522
Income/ (loss) from discontinued operations, net of tax	**209**	(69)	**628**	210,580
(Loss)/ income before cumulative effect of changes in accounting principle	**(14,156)**	67,110	**78,514**	385,102
Cumulative effect of changes in accounting principle, net of tax	**-**	**-**	**-**	1,345
Net (loss)/ income	**$ (14,156)**	$ 67,110	**$ 78,514**	$ 386,447
(Loss)/ earnings per common share from continuing operations	**$ (.11)**	$ .54	**$ .62**	$ 1.40
Earnings per common share from discontinued operations, net of tax	**-**	-	**-**	1.69
Earnings per common share from cumulative effect of changes in accounting principle	-	-	-	.02
(Loss)/ earnings per common share (Note 7)	**$ (.11)**	$ .54	**$ .62**	$ 3.11
(Loss)/ diluted earnings per common share from continuing operations	**$ (.11)**	$ .53	**$ .61**	$ 1.36
Diluted earnings per common share from discontinued operations, net of tax	-	-	-	1.65
Diluted earnings per common share from cumulative effect of changes in accounting principle	-	-	-	.01
(Loss)/ diluted earnings per common share (Note 7)	**$ (.11)**	$ .53	**$ .61**	$ 3.02
Weighted average common shares (Note 7)	**126,058**	124,150	**125,760**	124,431
Diluted average common shares (Note 7)	**126,058**	127,523	**127,823**	127,962

See accompanying notes to consolidated condensed financial statements.

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

CONSOLIDATED CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands)(Unaudited)	**First Horizon National Corporation**	
	2007	2006
Balance, January 1	**$2,462,390**	$2,347,539

Adjustment to reflect change in accounting for tax benefits (FIN 48)	**(862)**	-
Adjustment to reflect adoption of measurement date provisions for SFAS No. 158	**6,233**	-
Adjustment to reflect change in accounting for purchases of life insurance (EITF Issue No. 06-5)	**(548)**	-
Net income	**78,514**	386,447
Other comprehensive income:		
Unrealized fair value adjustments, net of tax:		
Cash flow hedges	**(268)**	434
Securities available for sale	**(5,591)**	48,373
Recognized pension and other employee benefit plans net periodic benefit costs	**4,127**	-
Comprehensive income	**76,782**	435,254
Cash dividends declared	**(170,620)**	(168,065)
Common stock repurchased	**(1,099)**	(165,569)
Common stock issued for:		
Stock options and restricted stock	**34,243**	49,432
Acquisitions	**-**	486
Excess tax benefit from stock-based compensation arrangements	**6,261**	3,592
Adjustment to reflect change in accounting for employee stock option forfeitures	**-**	(1,780)
Stock-based compensation expense	**9,016**	9,635
Other	**31**	-
Balance, September 30	**$2,421,827**	$2,510,524

See accompanying notes to consolidated condensed financial statements.

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NSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

		Nine Months Ended Septem 30	
llars in thousands)(Unaudited)		**2007**	20
erating	Net income	**$ 78,514**	$ 386,4
ivities	Adjustments to reconcile net income to net cash provided/(used) by operating activities:		
	Provision for loan losses	**116,246**	60,1
	Provision for deferred income tax	**5,611**	55,8
	Depreciation and amortization of premises and equipment	**44,286**	39,7
	Amortization of intangible assets	**8,095**	9,2
	Net other amortization and accretion	**48,978**	61,1
	Decrease in derivatives, net	**(103,163)**	(164,3
	Market value adjustment on mortgage servicing rights	**258**	(35,8
	Provision for foreclosure reserve	**4,144**	9,2
	Cumulative effect of changes in accounting principle, net of tax	**-**	(1,3
	Gain on divestiture	**-**	(208,5
	Stock-based compensation expense	**9,016**	9,6
	Excess tax benefit from stock-based compensation arrangements	**(6,261)**	(3,5
	Equity securities gains, net	**(2,967)**	(10,2
	Debt securities (gains)/losses, net	**(6,292)**	78,9
	Net losses on disposal of fixed assets	**1,093**	3,1

	Net (increase)/decrease in:		
	Trading securities	**496,092**	(379,3
	Loans held for sale	**(26,887)**	1,619,3
	Capital markets receivables	**(487,438)**	(516,4
	Interest receivable	**3,466**	(22,2
	Other assets	**24,965**	(1,132,6
	Net increase/(decrease) in:		
	Capital markets payables	**253,860**	398,0
	Interest payable	**4,984**	49,0
	Other liabilities	**(74,502)**	40,4
	Trading liabilities	**(246,897)**	53,8
	Total adjustments	**66,687**	13,2
	Net cash provided by operating activities	**145,201**	399,6
esting	Held to maturity securities:		
ivities	Maturities	**29**	
	Available for sale securities:		
	Sales	**636,188**	2,286,8
	Maturities	**765,601**	514,3
	Purchases	**(543,545)**	(3,854,0
	Premises and equipment:		
	Sales	**-**	
	Purchases	**(24,194)**	(75,9
	Net increase in loans	**(581,368)**	(1,499,5
	Net increase in investment in bank time deposits	**(12,952)**	(7,1
	Proceeds from divestitures, net of cash and cash equivalents	**-**	280,0
	Acquisitions, net of cash and cash equivalents acquired	**-**	(4
	Net cash provided/(used) by investing activities	**239,759**	(2,355,8
ancing	Common stock:		
ivities	Exercise of stock options	**34,450**	49,4
	Cash dividends paid	**(168,506)**	(167,5
	Repurchase of shares	**(1,099)**	(165,5
	Excess tax benefit from stock-based compensation arrangements	**6,261**	3,5
	Long-term debt:		
	Issuance	**1,222,431**	2,234,1
	Payments	**(265,056)**	(189,6
	Issuance of preferred stock of subsidiary	**8**	
	Repurchase of preferred stock of subsidiary	**(1)**	
	Net increase/(decrease) in:		
	Deposits	**(1,577,872)**	1,848,3
	Short-term borrowings	**251,663**	(1,194,4
	Net cash (used)/provided by financing activities	**(497,721)**	2,418,2
	Net (decrease)/increase in cash and cash equivalents	**(112,761)**	462,0
	Cash and cash equivalents at beginning of period	**2,146,092**	2,402,8
	Cash and cash equivalents at end of period	**$2,033,331**	$2,864,9
	Cash and cash equivalents from discontinued operations at beginning of period, included above	**$ -**	$ 8
	Total interest paid	**1,039,828**	923,1
	Total income taxes paid	**14,016**	105,7

accompanying notes to consolidated condensed financial statements.

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

Note 1 - Financial Information

The unaudited interim consolidated 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. The operating results for the interim 2007 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 2006 Annual Report to shareholders.

Income Taxes. FHN or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various states jurisdictions. With few exceptions, FHN is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2002. The Internal Revenue Service (IRS) has completed its examination of all U.S. federal returns through 2004; although 2003 and 2004 remain open under the statute. All proposed adjustments with respect to examinations of federal returns filed for 2004 and prior years have been settled.

FHN adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (FIN 48), on January 1, 2007. As a result of the implementation of FIN 48, FHN recognized a $.9 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007, balance of undivided profits. The total balance of unrecognized tax benefits at January 1, 2007, was $41.0 million. First Horizon does not expect that unrecognized tax benefits will significantly increase or decrease within the next 12 months. Included in the balance at January 1, 2007, were $15.6 million of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. FHN recognizes interest accrued related to unrecognized tax benefits in tax expense and penalties in tax expense. FHN had approximately $4.8 million accrued for the payment of interest at January 1, 2007. As of September 30, 2007, no significant changes to these amounts have occurred since the adoption of FIN 48.

Accounting Changes. Effective January 1, 2007, FHN adopted Statement of Financial Accounting Standards No. 155, “Accounting for Certain Hybrid Financial Instruments” (SFAS No. 155), which permits fair value remeasurement for hybrid financial instruments that contain an embedded derivative that otherwise would require bifurcation. Additionally, SFAS No. 155 clarifies the accounting guidance for beneficial interests in securitizations. Under SFAS No. 155, all beneficial interests in a securitization require an assessment in accordance with SFAS No. 133 to determine if an embedded derivative exists within the instrument. In addition, effective January 1, 2007, FHN adopted Derivatives
Implementation Group Issue B40, “Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets” (DIG B40). DIG B40 provides an exemption from the embedded derivative test of paragraph 13(b) of SFAS No. 133 for instruments that would otherwise require bifurcation if the test is met solely because of a prepayment feature included within the securitized interest and prepayment is not controlled by the security holder. Since FHN presents all retained interests in its proprietary securitizations as trading securities and due to the clarifying guidance of DIG B40, the impact of adopting SFAS No. 155 was immaterial to the results of operations.

Effective January 1, 2007, FHN adopted FIN 48 which provides guidance for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on the classification and disclosure of uncertain tax positions in the financial statements. As previously mentioned, upon adoption of FIN 48, FHN recognized a cumulative effect adjustment to the beginning balance of undivided profits in the amount of $.9 million for differences between the tax benefits recognized in the statements of condition prior to the adoption of FIN 48 and the amounts reported after adoption.

Effective January 1, 2007, FHN adopted EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance" (EITF 06-5). EITF 06-5 provides that in addition to cash surrender value, the asset recognized for a life insurance contract should consider certain other provisions included in a policy's contractual terms with additional amounts being discounted if receivable beyond one year. Additionally, EITF 06-5 requires that the determination of the amount that could be realized under an insurance contract be performed at the individual policy level. FHN recognized a reduction of undivided profits in the amount of $.5 million as a result of adopting EITF 06-5.

Note 1 - Financial Information (continued)

Effective January 1, 2007, FHN elected early adoption of the final provisions of Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS No. 158), which required that the annual measurement date of a plan's assets and liabilities be as of the date of the financial statements. As a result of adopting the measurement date provisions of SFAS No. 158, total equity was increased by $6.2 million on January 1, 2007, consisting of a reduction to undivided profits of $2.1 million and a credit to accumulated other comprehensive income of $8.3 million. Effective December 31, 2006, FHN adopted the provisions of SFAS No. 158 related to the requirements to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the statements of condition. SFAS No. 158 did not change measurement or recognition requirements for periodic pension and postretirement costs. SFAS No. 158 also provides that changes in the funded status of a defined benefit postretirement plan should be recognized in the year such changes occur through comprehensive income. As a result of adopting the recognition provisions of SFAS No. 158, unrecognized transition assets and obligations, unrecognized actuarial gains and losses, and unrecognized prior service costs and credits were recognized as a component of accumulated other comprehensive income resulting in a reduction in equity of $76.7 million, net of tax, on December 31, 2006.

In fiscal 2006, FHN adopted SEC Staff Accounting Bulletin No. 108 (SAB No. 108). SAB No. 108 requires that registrants assess the impact on both the statement of condition and the statement of income when quantifying and evaluating the materiality of a misstatement. Under SAB No. 108, adjustment of financial statements is required when either approach results in quantifying a misstatement that is material to a reporting period presented within the financial statements, after considering all relevant quantitative and qualitative factors. The adoption of SAB No. 108 had no effect on FHN's statement of condition or results of operations.

Effective January 1, 2006, FHN elected early adoption of SFAS No. 156. This amendment to SFAS No. 140 requires servicing rights be initially measured at fair value. Subsequently, companies are permitted to elect, on a class-by-class basis, either fair value or amortized cost accounting for their servicing rights. FHN elected fair value accounting for its MSR. Accordingly, FHN recognized the cumulative effect of a change in accounting principle totaling $.2 million, net of tax, representing the excess of the fair value of the servicing asset over the recorded value on January 1, 2006.

FHN also adopted Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections" (SFAS No. 154), as of January 1, 2006. SFAS No. 154 requires retrospective application of voluntary changes in accounting principle. A change in accounting principle mandated by new accounting pronouncements should follow the transition method specified by the new guidance. However, if transition guidance is not otherwise specified, retrospective application will be required. SFAS No. 154 does not alter the accounting requirement for changes in estimates (prospective) and error corrections (restatement). The adoption of SFAS No. 154 did not affect FHN's reported results of operations.

FHN adopted SFAS No. 123-R as of January 1, 2006. SFAS No. 123-R requires recognition of expense over the requisite service period for awards of share-based compensation to employees. The grant date fair value of an award is used to measure the compensation expense to be recognized over the life of the award. For unvested awards granted prior to the adoption of SFAS No. 123-R, the fair values utilized equal the values developed in preparation of the disclosures required under the original SFAS No. 123. Compensation expense recognized after adoption of SFAS No. 123-R incorporates an estimate of awards expected to ultimately vest, which requires estimation of forfeitures as well as projections related to the satisfaction of performance conditions that determine vesting. As permitted by SFAS No. 123-R, FHN retroactively applied the provisions of SFAS No. 123-R to its prior period financial statements. The Consolidated Condensed Statements of Income were revised to incorporate expenses previously presented in the footnote disclosures. The Consolidated Condensed Statements of Condition were revised to reflect the effects of including equity compensation expense in those prior periods. Additionally, all deferred compensation balances were reclassified within equity to capital surplus. Since FHN's prior disclosures included forfeitures as they occurred, a cumulative effect adjustment, as required by SFAS No. 123-R, of $1.1 million net of tax, was made for unvested awards that are not expected to vest due to anticipated forfeiture.

Accounting Changes Issued but Not Currently Effective. In November 2007, the SEC issued Staff Accounting Bulletin No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings" (SAB No. 109). SAB No. 109 rescinds SAB No. 105's prohibition on inclusion of expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. SAB No. 109 also applies to any loan commitments for which fair value accounting is elected under SFAS No. 159. SAB No. 109 is effective prospectively for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. FHN is currently assessing the financial impact of adopting SAB No. 109.

In June 2007, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 07-1, "Clarification of the Scope of the Audit and Accounting Guide *Investment Companies* and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies" (SOP 07-1), which provides guidance for determining whether an entity is within the scope of the AICPA's Investment Companies Guide. Additionally, SOP 07-1 provides certain criteria that must be met in order for investment company accounting applied by a subsidiary or equity method investee to be retained in the financial statements of the parent company or an equity method investor. SOP 07-1 also provides expanded disclosure requirements regarding the retention of such investment company accounting in the consolidated financial statements. In May 2007, FASB Staff Position No. FIN 46(R)- 7, "Application of FASB Interpretation No. 46(R) to Investment Companies" (FSP FIN 46(R)-7) was issued. FSP FIN 46(R)-7 amends FIN 46(R) to provide a permanent exception to its scope for companies within the scope

Note 1 - Financial Information (continued)

of the revised Investment Companies Guide under SOP 07-1. The FASB has indefinitely deferred the effective date of SOP 07-1 and FSP FIN 46(R)-7.

In April 2007, FASB Staff Position No. FIN 39-1, "Amendment of FASB Interpretation No. 39" (FSP FIN 39-1) was issued. FSP FIN 39-1 permits the offsetting of fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. Upon adoption of FSP FIN 39-1, entities are permitted to change their previous accounting policy election to offset or not offset fair value amounts recognized for derivative instruments under master netting arrangements. Additionally, FSP FIN 39-1 requires additional disclosures for derivatives and collateral associated with master netting arrangements. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, through retrospective application, with early application permitted. FHN is currently assessing the financial impact of adopting FSP FIN 39-1.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159), which allows an irrevocable election to measure certain financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with unrealized gains and losses recognized currently in earnings. Under SFAS No. 159, the fair value option may only be elected at the time of initial recognition of a financial asset or financial liability or upon the occurrence of certain specified events. Additionally, SFAS No. 159 provides that application of the fair value option must be based on the fair value of an entire financial asset or financial liability and not selected risks inherent in those assets or liabilities. SFAS No. 159 requires that assets and liabilities which are measured at fair value pursuant to the fair value option be reported in the financial statements in a manner that separates those fair values from the carrying amounts of similar assets and liabilities which are measured using another measurement attribute. SFAS No. 159 also provides expanded disclosure requirements regarding the effects of electing the fair value option on the financial statements. SFAS No. 159 is effective prospectively for fiscal years beginning after November 15, 2007. FHN is currently assessing the financial impact of adopting SFAS No. 159.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157), which establishes a hierarchy to be used in performing measurements of fair value. SFAS No. 157 emphasizes that fair value should be determined from the perspective of a market participant while also indicating that valuation methodologies should first reference available market data before using internally developed assumptions. Additionally, SFAS No. 157 provides expanded disclosure requirements regarding the effects of fair value measurements on the financial statements. SFAS No. 157 is effective prospectively for fiscal years beginning after November 15, 2007. FHN is currently assessing the financial impact of adopting SFAS No. 157.

In September 2006, the consensus reached in EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" (EITF 06-4) was ratified by the FASB. EITF 06-4 requires that a liability be recognized for contracts written to employees which provide future postretirement benefits that are covered by endorsement split-dollar life insurance arrangements because such obligations are not considered to be effectively settled upon entering into the related insurance arrangements. EITF 06-4 is effective for fiscal years beginning after December 15, 2007, with the guidance applied using either a retrospective approach or through a cumulative-effect adjustment to beginning undivided profits. FHN anticipates recognizing a liability, with a corresponding decrease to undivided profits, of approximately $8 million, net of tax, upon adoption of EITF 06-4.

Note 2 - Acquisitions/Divestitures

Due to FHN's ongoing efforts to improve profitability, in July 2007 management decided to pursue the sale, closure, or consolidation of 34 full-service First Horizon Bank branches in Atlanta, Baltimore, Dallas and Northern Virginia. In September 2007, it was announced that agreements for the sale of all 34 of the branches had been reached. The branch sales are expected to close by the first quarter of 2008 and are expected to result in a gain up to $40 million for FHN in the aggregate after recognition of $13.9 million in impairment losses in the third quarter of 2007. Each of the agreements is to purchase certain loans and fixed assets, including branch locations, and to assume all of the deposit relationships of the First Horizon Bank branches being purchased. The assets and liabilities related to the branches to be sold, which are included in the Retail/Commercial Banking segment, are reflected as held-for-sale on the Consolidated Condensed Statements of Condition. The aggregate carrying amounts of transferred loans, deposits, other assets and other liabilities were $565.5 million, $474.8 million, $22.6 million, and $39.4 million, respectively, as of September 30, 2007. As a result of impairment assessments completed in relation to two Georgia branches, a goodwill writedown of $13.0 million and a writedown of core deposit intangibles of $.9 million were recognized in the third quarter of 2007. The goodwill impairment loss was estimated based on the implied fair value as of September 30, 2007 of the goodwill originally recognized upon FHN's purchase of such branches, and was calculated using the bid price for the associated branches. The fair value of the core deposit intangible asset, which is included in the Retail/Commerical Banking segment, was determined based on the discounted present value of cash flows remaining related to the associated deposit accounts. These impairment losses are included in all other expense on the Consolidated Condensed Statements of Income and are recognized in the Corporate segment as described in Note 12 – Restructuring, Repositioning, and Efficiency Charges.

On June 28, 2006, First Horizon Merchant Services, Inc. (FHMS) sold all of the outstanding capital stock of Global Card Services, Inc. (GCS), a wholly-owned subsidiary. As a result, tax benefits of $4.2 million were recognized associated with the difference between FHMS' tax basis in the stock and net proceeds from the sale.

On March 1, 2006, FHN sold substantially all the assets of its national merchant processing business conducted primarily through FHMS and GCS. The sale was to NOVA Information Systems (NOVA), a wholly-owned subsidiary of U.S. Bancorp. This transaction resulted in a pre-tax gain of $351.5 million. In addition, a supplement to the purchase price may be paid to FHN if certain performance goals are achieved during a period following closing. This divestiture was accounted for as a discontinued operation, and prior periods were adjusted to exclude the impact of merchant operations from the results of continuing operations. In conjunction with the sale, FHN entered into a transitional service agreement with NOVA to provide or continue on-going services such as telecommunications, back-end processing and disaster recovery until NOVA converts the operations to their systems.

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

Note 3 - Loans

The composition of the loan portfolio is detailed below:

(Dollars in thousands)	September 30 **2007**	2006	December 31 2006
Commercial:			
Commercial, financial and industrial	**$ 6,978,643**	$ 6,945,207	$ 7,201,009
Real estate commercial	**1,326,261**	1,199,084	1,136,590
Real estate construction	**2,828,545**	2,660,415	2,753,458
Retail:			
Real estate residential	**7,544,048**	8,428,652	7,973,313
Real estate construction	**2,160,593**	2,096,440	2,085,133
Other retail	**144,526**	163,134	161,178
Credit card receivables	**196,967**	202,866	203,307
Real estate loans pledged against other collateralized borrowings	**793,421**	259,232	590,917
Loans, net of unearned income	**21,973,004**	21,955,030	22,104,905
Allowance for loan losses	**236,611**	206,829	216,285
Total net loans	**$ 21,736,393**	$ 21,748,201	$ 21,888,620

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

Nonperforming loans consist of loans which management has identified as impaired, other nonaccrual loans and loans which have been restructured. On September 30, 2007 and 2006, there were no outstanding commitments to advance additional funds to customers whose loans had been restructured. The following table presents nonperforming loans on:

(Dollars in thousands)	September 30 **2007**	2006	December 31 2006
Impaired loans	**$ 181,010**	$ 60,372	$ 76,340
Other nonaccrual loans*	**27,296**	14,072	17,290
Total nonperforming loans	**$ 208,306**	$ 74,444	$ 93,630

* On September 30, 2007 and 2006, and on December 31, 2006, other nonaccrual loans included $18.5 million, $10.5 million, and $10.8 million, respectively, of loans held for sale.

Generally, interest payments received on impaired loans are applied to principal. Once all principal has been received, additional payments are recognized as interest income on a cash basis. The following table presents information concerning impaired loans:

(Dollars in thousands)	Three Months Ended September 30 **2007**	2006	Nine Months Ended September 30 **2007**	2006
Total interest on impaired loans	**$ 152**	$ 538	**$ 646**	$ 882
Average balance of impaired loans	**158,373**	54,227	**112,857**	48,945

Activity in the allowance for loan losses related to non-impaired loans, impaired loans, and for the total allowance for the nine months ended
September 30, 2007 and 2006, is
summarized as follows:

(Dollars in thousands)	Non-impaired	Impaired	Total
Balance on December 31, 2005	$ 179,635	$ 10,070	$ 189,705
Provision for loan losses	35,255	24,891	60,146
Divestitures/acquisitions/transfers	(1,470)	-	(1,470)
Charge-offs	(29,414)	(22,677)	(52,091)
Recoveries	7,687	2,852	10,539
Net charge-offs	(21,727)	(19,825)	(41,552)
Balance on September 30, 2006	$ 191,693	$ 15,136	$ 206,829
Balance on December 31, 2006	$ 200,827	$ 15,458	$ 216,285
Provision for loan losses	50,773	65,473	116,246
Divestitures/acquisitions/transfers	(16,237)	1,290	(14,947)
Charge-offs	(35,476)	(56,540)	(92,016)
Recoveries	6,893	4,150	11,043
Net charge-offs	(28,583)	(52,390)	(80,973)
Balance on September 30, 2007	**$ 206,780**	**$ 29,831**	**$ 236,611**

Note 4 - Mortgage Servicing Rights

On January 1, 2006, FHN elected early adoption of SFAS No. 156, which requires servicing rights be initially measured at fair value. Subsequently, companies are permitted to elect, on a class-by-class basis, either fair value or amortized cost accounting for their servicing rights. Accordingly, FHN began initially recognizing all its classes of mortgage servicing rights (MSR) at fair value and elected to irrevocably continue application of fair value accounting to all its classes of MSR. Classes of MSR are determined in accordance with FHN's risk management practices and market inputs used in determining the fair value of the servicing asset. FHN recognized the cumulative effect of a change in accounting principle totaling $.2 million, net of tax, representing the excess of the fair value of the servicing asset over the recorded value on January 1, 2006. The balance of MSR included on the Consolidated Condensed Statements of Condition represents the rights to service approximately $110.0 billion of mortgage loans on September 30, 2007, for which a servicing right has been capitalized.

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, like other participants in the mortgage banking business, FHN relies primarily on a discounted cash flow model to estimate the fair value of its MSR. This model calculates 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 uses assumptions in the model that it believes are comparable to those used by brokers and other service providers. FHN also periodically compares its estimates of fair value and assumptions with brokers, service providers, and recent market activity and against its own experience.

Following is a summary of changes in capitalized MSR as of September 30, 2007 and 2006:

(Dollars in thousands)	First Liens	Second Liens	HELOC
Fair value on January 1, 2006	$ 1,318,219	$ 5,470	$ 14,384
Addition of mortgage servicing rights	303,791	15,532	5,421
Reductions due to loan payments	(191,239)	(2,924)	(6,143)
Changes in fair value due to:			
Changes in current market interest rates	33,536	34	1,090
Changes in assumptions	-	722	8
Other changes in fair value	53	17	370
Fair value on September 30, 2006	$ 1,464,360	$ 18,851	$ 15,130
Fair value on January 1, 2007	$ 1,495,215	$ 24,091	$ 14,636
Addition of mortgage servicing rights	282,341	11,582	1,919
Reductions due to loan payments	(173,323)	(7,106)	(3,961)
Changes in fair value due to:			
Changes in current market interest rates	(387)	98	(39)
Reclassification to trading assets	(174,547)	-	-
Other changes in fair value	(54)	82	42
Fair value on September 30, 2007	**$ 1,429,245**	**$ 28,747**	**$ 12,597**

In conjunction with capital management initiatives, FHN modified Pooling and Servicing Agreements (PSA) on its private securitizations during the second quarter of 2007 to segregate the retained yield component from the master servicing fee. The retained yield of $174.5 million was reclassified from mortgage servicing rights to trading securities on the Consolidated Condensed Statements of Condition.

Note 5 - 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*
December 31, 2005	$	281,440	$	76,647
Amortization expense		-		(9,002)
Additions		4,871		6,124
Divestitures		(11,777)		(3,223)
September 30, 2006	$	274,534	$	70,546
December 31, 2006	$	275,582	$	64,530
Amortization expense		-		(8,095)
Impairment**		(13,010)		(910)
Divestitures		-		(93)
Additions***		4,656		3,306
September 30, 2007	**$**	**267,228**	**$**	**58,738**

* Represents customer lists, acquired contracts, premium on purchased deposits, covenants not to compete and assets related to the minimum pension liability.

** See Note 2 - Acquisition/Divestitures for further details.

*** Preliminary purchase price allocations on acquisitions are based upon estimates of fair value and are subject to change.

The gross carrying amount of other intangible assets subject to amortization is $135.7 million on September 30, 2007, net of $77.0 million of accumulated amortization. Estimated aggregate amortization expense for the remainder of 2007 is expected to be $2.5 million and is expected to be $8.6 million, $6.7 million, $5.8 million and $5.5 million for the twelve-month periods of 2008, 2009, 2010 and 2011, respectively.

The following is a summary of goodwill detailed by reportable segments for the nine months ended September 30:

(Dollars in thousands)		Retail/ Commercial Banking		Mortgage Banking		Capital Markets		Total
December 31, 2005	$	104,781	$	61,593	$	115,066	$	281,440
Divestitures		(11,777)		-		-		(11,777)
Additions		1,272		3,599		-		4,871
September 30, 2006	$	94,276	$	65,192	$	115,066	$	274,534
December 31, 2006	$	94,276	$	66,240	$	115,066	$	275,582
Impairment		(13,010)		-		-		(13,010)
Additions*		-		4,656		-		4,656
September 30, 2007	**$**	**81,266**	**$**	**70,896**	**$**	**115,066**	**$**	**267,228**

* Preliminary purchase price allocations on acquisitions are based upon estimates of fair value and are subject to change.

Note 6 - Regulatory Capital

FHN is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on FHN's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines that involve quantitative measures of assets, liabilities and certain derivatives as calculated under regulatory accounting practices must be met. Capital amounts and classification are also subject to qualitative judgment by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require FHN to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets (leverage). Management believes, as of September 30, 2007, that FHN met all capital adequacy requirements to which it was subject.

The actual capital amounts and ratios of FHN and FTBNA are presented in the table below. In addition, FTBNA must also calculate its capital ratios after excluding financial subsidiaries as defined by the Gramm-Leach-Bliley Act of 1999. Based on this calculation FTBNA's Total Capital, Tier 1 Capital and Leverage ratios were 11.78 percent, 8.12 percent and 6.81 percent, respectively, on September 30, 2007, and were 11.58 percent, 7.95 percent and 6.61 percent, respectively, on September 30, 2006.

	First Horizon National Corporation			First Tennessee Bank National Association		
(Dollars in thousands)	Amount		Ratio	Amount		Ratio
On September 30, 2007:						
Actual:						
Total Capital	$ 3,988,233		12.85%	$ 3,796,610		12.38%
Tier 1 Capital	2,666,834		8.59	2,575,210		8.39
Leverage	2,666,834		7.12	2,575,210		6.93
For Capital Adequacy Purposes:						
Total Capital	2,483,350	≥	8.00	2,454,189	≥	8.00
Tier 1 Capital	1,241,675	≥	4.00	1,227,094	≥	4.00
Leverage	1,498,359	≥	4.00	1,486,043	≥	4.00
To Be Well Capitalized Under Prompt Corrective Action Provisions:						
Total Capital				3,067,736	≥	10.00
Tier 1 Capital				1,840,642	≥	6.00
Leverage				1,857,554	≥	5.00
On September 30, 2006:						
Actual:						
Total Capital	$ 3,998,431		12.66%	$ 3,806,220		12.14%
Tier 1 Capital	2,660,264		8.42	2,568,052		8.19
Leverage	2,660,264		6.80	2,568,052		6.62
For Capital Adequacy Purposes:						
Total Capital	2,526,690	≥	8.00	2,507,515	≥	8.00
Tier 1 Capital	1,263,345	≥	4.00	1,253,757	≥	4.00
Leverage	1,564,438	≥	4.00	1,552,664	≥	4.00
To Be Well Capitalized Under Prompt						

Corrective Action Provisions:			
Total Capital	3,134,393	≥	10.00
Tier 1 Capital	1,880,636	≥	6.00
Leverage	1,940,830	≥	5.00

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

Note 7 - Earnings Per Share

The following table shows a reconciliation of earnings per common share to diluted earnings per common share:

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands, except per share data)	**2007**	2006	**2007**	2006
Net (loss)/income from continuing operations	**$ (14,365)**	$ 67,179	**$ 77,886**	$ 174,522
Income/(loss) from discontinued operations, net of tax	**209**	(69)	**628**	210,580
Cumulative effect of changes in accounting principle, net of tax	**-**	-	**-**	1,345
Net (loss)/income	**$ (14,156)**	$ 67,110	**$ 78,514**	$ 386,447
Weighted average common shares	**126,058**	124,150	**125,760**	124,431
Effect of dilutive securities	**-**	3,373	**2,063**	3,531
Diluted average common shares	**126,058**	127,523	**127,823**	127,962
Earnings per common share:				
Net (loss)/income from continuing operations	**$ (.11)**	$ .54	**$ .62**	$ 1.40
Income from discontinued operations, net of tax	**-**	-	**-**	1.69
Cumulative effect of changes in accounting principle, net of tax	**-**	-	**-**	.02
Net (loss)/income	**$ (.11)**	$ .54	**$ .62**	$ 3.11
Diluted earnings per common share:				
Net (loss)/income from continuing operations	**$ (.11)**	$ .53	**$ .61**	$ 1.36
Income from discontinued operations, net of tax	**-**	-	**-**	1.65
Cumulative effect of changes in accounting principle, net of tax	**-**	-	**-**	.01
Net (loss)/income	**$ (.11)**	$ .53	**$ .61**	$ 3.02

Equity awards of 17,811 and 6,730 with a weighted average exercise price of $34.76 and $42.34 per share for the three months ended September 30, 2007 and 2006 and of 9,876 and 6,174 with weighted average exercise prices of $37.81 and $42.56 per share for the nine months ended September 30, 2007 and 2006, respectively, were not included in the computation of diluted earnings per common share because such shares would have had an antidilutive effect on earnings per common share.

In first quarter 2006, FHN purchased four million shares of its common stock. This share repurchase program was concluded for an adjusted

purchase price of $165.1 million in
second quarter 2006.

Note 8 - Contingencies and Other Disclosures

Contingencies. Contingent liabilities arise in the ordinary course of business, including those related to litigation. Various claims and lawsuits are pending against FHN and its subsidiaries. Although FHN cannot predict the outcome of these lawsuits, after consulting with counsel, management is of the opinion that when resolved, these lawsuits will not have a material adverse effect on the consolidated financial statements of FHN.

In November 2000, a complaint was filed in state court in Jackson County, Missouri against FHN's subsidiary, First Horizon Home Loans. The case generally concerned the charging of certain loan origination fees, including fees permitted by Kansas and federal law but allegedly restricted or not permitted by Missouri law, when First Horizon Home Loans or its predecessor, McGuire Mortgage Company, made certain second-lien mortgage loans. Among other relief, plaintiffs sought a refund of fees, a repayment and forgiveness of loan interest, prejudgment interest, punitive damages, loan rescission, and attorneys' fees. In response to pre-trial motions, the court certified a statewide class action involving approximately 4,000 loans and made a number of rulings that could have significantly affected the ultimate outcome of the case in the absence of an appeal. Trial had been scheduled for the fourth quarter of 2006.

As a result of mediation, FHN entered into a final settlement agreement related to the McGuire lawsuit. In connection with this settlement, FHN agreed to pay, under agreed circumstances using an agreed methodology, an aggregate of up to approximately $36 million. At the present time, the period during which claims under the settlement can be made has ended. Claims have been evaluated and objections made pursuant to the agreed upon challenge process. The total amount reserved for this matter, based on the claims received and FHN's evaluation of them to date, was approximately $30 million. The settlement has received final approval by the court, the court has entered its order making the settlement final, there have been no appeals, and the time for any appeals has expired.

The loss reserve for this matter reflects an estimate of the amount that ultimately would be paid under the settlement. The amount reserved reflects the amount and value of claims actually received by the claims deadline plus fees and expenses that the settlement requires FHN to pay, all of which together are less than the maximum amount possible under the settlement. The ultimate amount paid under the settlement is not expected to be higher than the amount reserved at present, and may be lower in the event some of the claims are reduced or rejected for reasons set forth in the settlement, and in any event cannot exceed the settlement amount.

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.

First Horizon Home Loans services a mortgage loan portfolio of approximately $108.7 billion on September 30, 2007, a significant portion of which is held by GNMA, FNMA, FHLMC or private security holders. In connection with its servicing activities, First Horizon Home Loans guarantees the receipt of the scheduled principal and interest payments on the underlying loans. In the event of customer non-performance on the loan, First Horizon Home Loans is obligated to make the payment to the security holder. Under the terms of the servicing agreements, First Horizon Home Loans can utilize payments received from other prepaid loans in order to make the security holder whole. In the event payments are ultimately made by First Horizon Home Loans to satisfy this obligation, for loans sold with no recourse, all funds are recoverable from the government agency at foreclosure sale.

First Horizon Home Loans is also subject to losses in its loan servicing portfolio due to loan foreclosures and other recourse obligations. Certain agencies have the authority to limit their repayment guarantees on foreclosed loans resulting in certain foreclosure costs being borne by servicers. In addition, First Horizon Home Loans has exposure on all loans sold with recourse. First Horizon Home Loans has various claims for reimbursement, repurchase obligations, and/or indemnification requests outstanding with government agencies or private investors. First Horizon Home Loans has evaluated all of its exposure under recourse obligations based on factors, which include loan delinquency status, foreclosure expectancy rates and claims outstanding. Accordingly, First Horizon Home Loans had an allowance for losses on the mortgage servicing portfolio of approximately $12.9 million and $14.8 million on September 30, 2007 and 2006, respectively. First Horizon Home Loans has sold certain mortgage loans with an agreement to repurchase the loans upon default. For the single-family residential loans, in the event of borrower nonperformance, First Horizon Home Loans would assume losses to the extent they exceed the value of the collateral and private mortgage insurance, FHA insurance or VA guarantees. On September 30, 2007 and 2006, First Horizon Home Loans had single-family residential loans with outstanding balances of $104.6 million and $130.4 million, respectively, that were serviced on a full recourse basis. On September 30, 2007 and 2006, the outstanding principal balance of loans sold with limited recourse arrangements where some portion of the principal is at risk and serviced

Note 8 - Contingencies and Other Disclosures (continued)

by First Horizon Home Loans was $3.3 billion and $3.0 billion, respectively. Additionally, on September 30, 2007 and 2006, $4.9 billion and $5.1 billion, respectively, of mortgage loans were outstanding which were sold under limited recourse arrangements where the risk is limited to interest and servicing advances.

FHN has securitized and sold HELOC and second-lien mortgages which are held by private security holders, and on September 30, 2007, the outstanding principal balance of these loans was $285.4 million and $76.7 million, respectively. On September 30, 2006, the outstanding principal balance of securitized and sold HELOC and second-lien mortgages was $415.5 million and $105.2 million, respectively. In connection with its servicing activities, FTBNA does not guarantee the receipt of the scheduled principal and interest payments on the underlying loans but does have residual interests of $22.2 million and $53.3 million on September 30, 2007 and 2006, respectively, which are available to make the security holder whole in the event of credit losses. FHN has projected expected credit losses in the valuation of the residual interest.

Note 9 – Pension and Other Employee Benefits

Pension plan. FHN provides pension benefits to employees retiring under the provisions of a noncontributory, defined benefit pension plan. Employees of FHN's mortgage subsidiary and certain insurance subsidiaries are not covered by the pension plan. Pension benefits are based on years of service, average compensation near retirement and estimated social security benefits at age 65. The annual funding is based on an actuarially determined amount using the entry age cost method. The Pension Plan was closed to new participants as of October 1, 2007.

FHN also maintains a nonqualified supplemental executive retirement plan that covers certain employees whose benefits under the pension plan have been limited under Tax Code Section 415 and Tax Code Section 401(a)(17), which limit compensation to $225,000 for purposes of benefit calculations. Compensation is defined in the same manner as it is under the pension plan. Participants receive the difference between the monthly pension payable, if tax code limits did not apply, and the actual pension payable. All benefits provided under this plan are unfunded and payments to plan participants are made by FHN.

Other employee benefits. FHN provides postretirement medical insurance to full-time employees retiring under the provisions of the FHN Pension Plan. The postretirement medical plan is contributory with retiree contributions adjusted annually. The plan is based on criteria that are a combination of the employee's age and years of service and utilizes a two-step approach. For any employee retiring on or after January 1, 1995, FHN contributes a fixed amount based on years of service and age at time of retirement.

Effective December 31,2006, FHN adopted SFAS No. 158, which required the recognition of the overfunded or underfunded status of a defined benefit plan and postretirement plan as an asset or liability in the statements of condition. SFAS No. 158 did not change measurement or recognition requirements for periodic pension and postretirement costs. Effective January 1, 2007, FHN adopted the final provisions of SFAS No. 158, which required that the annual measurement date of a plan's assets and liabilities be as of the date of the financial statements. As a result of adopting the measurement provisions of SFAS No. 158, undivided profits were reduced by $2.1 million, net of tax, and accumulated other comprehensive income was credited by $8.3 million, net of tax.

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

	Pension Benefits		Postretirement Benefits	
(Dollars in thousands)	**2007**	2006	**2007**	2006
Components of net periodic benefit cost/(benefit)				
Service cost	**$ 4,324**	$ 4,521	**$ 74**	$ 83
Interest cost	**6,153**	5,485	**278**	279
Expected return on plan assets	**(10,638)**	(8,945)	**(440)**	(421)
Amortization of prior service cost/(benefit)	**220**	211	**(44)**	(44)
Recognized losses/(gains)	**2,226**	1,769	**(177)**	(141)
Amortization of transition obligation	**-**	-	**247**	248
Net periodic cost/(benefit)	**$ 2,285**	$ 3,041	**$ (62)**	$ 4

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

	Pension Benefits		Postretirement Benefits	
(Dollars in thousands)	**2007**	2006	**2007**	2006
Components of net periodic benefit cost/(benefit)				
Service cost	**$ 12,978**	$ 13,561	**$ 224**	$ 249
Interest cost	**18,461**	16,456	**834**	837
Expected return on plan assets	**(31,912)**	(26,834)	**(1,322)**	(1,262)

Amortization of prior service cost/(benefit)	**660**	633	**(132)**	(132)
Recognized losses/(gains)	**5,846**	5,306	**(533)**	(422)
Amortization of transition obligation	**-**	-	**741**	742
Net periodic cost/(benefit)	**$ 6,033**	$ 9,122	**$ (188)**	$ 12

Note 9 – Pension and Other Employee Benefits (continued)

FHN made a contribution of $37 million to the pension plan in fourth quarter 2006 and made an additional contribution of $37 million in first quarter 2007. Both of these contributions were attributable to the 2006 plan year. FHN expects to make no additional contributions to the pension plan or to the other employee benefit plan in 2007.

Note 10 – Business Segment Information

FHN has four business segments, Retail/Commercial Banking, Mortgage Banking, Capital Markets and Corporate. The Retail/Commercial Banking segment offers financial products and services, including traditional lending and deposit taking, to retail and commercial customers. Additionally, Retail/Commercial Banking provides investments, insurance, financial planning, trust services and asset management, credit card, cash management, check clearing, and correspondent services. On March 1, 2006, FHN sold its national merchant processing business. The divestiture, which was accounted for as a discontinued operation, is included in the Retail/Commercial Banking segment. The Mortgage Banking segment consists of core mortgage banking elements including originations and servicing and the associated ancillary revenues related to these businesses. The Capital Markets segment consists of traditional capital markets securities activities, structured finance, equity research, investment banking, loan sales, portfolio advisory, and the sale of bank-owned life insurance. The Corporate segment consists of unallocated corporate expenses, expense on subordinated debt issuances and preferred stock, 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, and venture capital. Periodically, FHN adapts its segments to reflect changes in expense allocations between segments. Previously reported amounts have been reclassified to agree with current presentation.

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. This assignment and allocation has 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)	**2007**	2006	**2007**	2006
Total Consolidated				
Net interest income	**$ 237,804**	$ 251,621	**$ 714,655**	$ 750,940
Provision for loan losses	**43,352**	23,694	**116,246**	60,146
Noninterest income	**203,475**	317,927	**766,962**	850,549
Noninterest expense	**421,622**	452,899	**1,281,874**	1,310,991
Pre-tax (loss)/income	**(23,695)**	92,955	**83,497**	230,352
(Benefit)/provision for income taxes	**(9,330)**	25,776	**5,611**	55,830
(Loss)/income from continuing operations	**(14,365)**	67,179	**77,886**	174,522
Income/(loss) from discontinued operations, net of tax	**209**	(69)	**628**	210,580
(Loss)/income before cumulative effect of changes in accounting principle	**(14,156)**	67,110	**78,514**	385,102
Cumulative effect of changes in accounting principle, net of tax	**-**	-	**-**	1,345
Net (loss)/income	**$ (14,156)**	$ 67,110	**$ 78,514**	$ 386,447
Average assets	**$ 37,754,038**	$ 39,519,765	**$ 38,487,137**	$ 38,574,766

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

Note 10 – Business Segment Information (continued)

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2007**	2006	**2007**	2006
Retail/Commercial Banking				
Net interest income	**$ 219,579**	$ 232,830	**$ 661,591**	$ 691,066
Provision for loan losses	**43,349**	23,549	**108,689**	59,936
Noninterest income	**95,397**	111,594	**305,005**	333,317
Noninterest expense	**193,269**	205,416	**597,681**	638,526
Pre-tax income	**78,358**	115,459	**260,226**	325,921
Provision for income taxes	**27,792**	35,470	**80,824**	92,680
Income from continuing operations	**50,566**	79,989	**179,402**	233,241
Income/(loss) from discontinued operations, net of tax	**209**	(69)	**628**	210,580
Income before cumulative effect	**50,775**	79,920	**180,030**	443,821
Cumulative effect of changes in accounting principle, net of tax	**-**	-	**-**	522
Net income	**$ 50,775**	$ 79,920	**$ 180,030**	$ 444,343
Average assets	**$ 23,782,612**	$ 23,419,421	**$ 23,723,556**	$ 23,136,168
Mortgage Banking				
Net interest income	**$ 20,590**	$ 21,266	**$ 62,286**	$ 72,598
Provision for loan losses	**3**	145	**(115)**	210
Noninterest income	**42,158**	90,376	**193,859**	293,711
Noninterest expense	**108,580**	136,804	**329,476**	366,715
Pre-tax loss	**(45,835)**	(25,307)	**(73,216)**	(616)
Benefit from income taxes	**(16,612)**	(10,283)	**(36,887)**	(1,685)
(Loss)/income before cumulative effect	**(29,223)**	(15,024)	**(36,329)**	1,069
Cumulative effect of changes in accounting principle, net of tax	**-**	-	**-**	414
Net (loss)/income	**$ (29,223)**	$ (15,024)	**$ (36,329)**	$ 1,483
Average assets	**$ 6,663,005**	$ 6,333,165	**$ 6,578,956**	$ 6,387,233
Capital Markets				
Net interest expense	**$ (2,169)**	$ (1,531)	**$ (11,871)**	$ (11,867)
Noninterest income	**61,847**	98,498	**241,193**	299,229
Noninterest expense	**67,339**	81,778	**220,911**	248,008
Pre-tax (loss)/income	**(7,661)**	15,189	**8,411**	39,354
(Benefit)/provision for income taxes	**(2,957)**	5,682	**3,001**	14,681
(Loss)/income before cumulative effect	**(4,704)**	9,507	**5,410**	24,673
Cumulative effect of changes in accounting principle, net of tax	**-**	-	**-**	179
Net (loss)/ income	**$ (4,704)**	$ 9,507	**$ 5,410**	$ 24,852
Average assets	**$ 3,441,451**	$ 5,183,369	**$ 4,081,671**	$ 5,014,073

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

Note 10 – Business Segment Information (continued)

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2007**	2006	**2007**	2006
Corporate				
Net interest (expense)/income	**$ (196)**	$ (944)	**$ 2,649**	$ (857)
Provision for loan losses	**-**	-	**7,672**	-
Noninterest income/(expense)	**4,073**	17,459	**26,905**	(75,708)
Noninterest expense	**52,434**	28,901	**133,806**	57,742
Pre-tax loss	**(48,557)**	(12,386)	**(111,924)**	(134,307)
Benefit from income taxes	**(17,553)**	(5,093)	**(41,327)**	(49,846)
Loss before cumulative effect	**(31,004)**	(7,293)	**(70,597)**	(84,461)
Cumulative effect of changes in accounting principle, net of tax	**-**	-	**-**	230
Net loss	**$ (31,004)**	$ (7,293)	**$ (70,597)**	$ (84,231)
Average assets	**$ 3,866,970**	$ 4,583,810	**$ 4,102,954**	$ 4,037,292

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

Note 11 – Derivatives

In the normal course of business, FHN utilizes various financial instruments, through its mortgage banking, capital markets and risk management operations, which include derivative contracts and credit-related arrangements, as part of its risk management strategy and as a means to meet customers' needs. These instruments are subject to credit and market risks in excess of the amount recorded on the balance sheet in accordance with generally accepted accounting principles. 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 because 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 agreements whenever possible to limit potential exposure. 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. Market risk represents the potential loss due to the decrease in the value of a financial instrument caused primarily by changes in interest rates, mortgage loan prepayment speeds 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 also as a risk management tool. Where contracts have been created for customers, FHN enters into transactions with dealers to offset its risk exposure. Derivatives are also used as a risk management tool to hedge FHN's exposure to changes in interest rates or other defined market risks.

Derivative instruments are recorded on the Consolidated Condensed Statements of Condition as other assets or other liabilities measured at fair value. Fair value is defined as the amount FHN would receive or pay in the market to replace the derivatives as of the valuation date. Fair value is determined using available market information and appropriate valuation methodologies. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability are recognized currently in earnings. For a cash flow hedge, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded in accumulated other comprehensive income and subsequently reclassified to earnings as the hedged transaction impacts net income. Any ineffective portion of a cash flow hedge is recognized currently in earnings. For freestanding derivative instruments, changes in fair value are recognized currently in earnings. Cash flows from derivative contracts are reported as operating activities on the Consolidated Condensed Statements of Cash Flows.

Interest rate 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 specific 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.

Mortgage Banking

Mortgage banking interest rate lock commitments are short-term commitments to fund mortgage loan applications in process (the pipeline) for a fixed term at a fixed price. During the term of an interest rate lock commitment, First Horizon Home Loans has the risk that interest rates will change from the rate quoted to the borrower. First Horizon Home Loans enters into forward sales contracts with respect to fixed rate loan commitments and futures contracts with respect to adjustable rate loan commitments as economic hedges designed to protect the value of the interest rate lock commitments from changes in value due to changes in interest rates. Under SFAS No. 133, interest rate lock commitments qualify as derivative financial instruments and as such do not qualify for hedge accounting treatment. As a result, the interest rate lock commitments are recorded at fair value, exclusive of the value of associated servicing rights, with changes in fair value recorded in current earnings as gain or loss on the sale of loans in mortgage banking noninterest income. Changes in the fair value of the derivatives that

Note 11 – Derivatives (continued)

serve as economic hedges of interest rate lock commitments are also included in current earnings as a component of gain or loss on the sale of loans in mortgage banking noninterest income.

First Horizon Home Loans' warehouse (mortgage loans held for sale) is subject to changes in fair value, due to fluctuations in interest rates from the loan closing date through the date of sale of the loan into the secondary market. Typically, the fair value of the warehouse declines in value when interest rates increase and rises in value when interest rates decrease. To mitigate this risk, First Horizon Home Loans enters into forward sales contracts and futures contracts to provide an economic hedge against those changes in fair value on a significant portion of the warehouse. These derivatives are recorded at fair value with changes in fair value recorded in current earnings as a component of the gain or loss on the sale of loans in mortgage banking noninterest income.

To the extent that these interest rate derivatives are designated to hedge specific similar assets in the warehouse and prospective analyses indicate that high correlation is expected, the hedged loans are considered for hedge accounting under SFAS No. 133. Anticipated correlation is determined by projecting a dollar offset relationship for each tranche based on anticipated changes in the fair value of the hedged mortgage loans and the related derivatives, in response to various interest rate shock scenarios. Hedges are reset daily and the statistical correlation is calculated using these daily data points. Retrospective hedge effectiveness is measured using the regression correlation results. First Horizon Home Loans generally maintains a coverage ratio (the ratio of expected change in the fair value of derivatives to expected change in the fair value of hedged assets) of approximately 100 percent on warehouse loans hedged under SFAS No. 133. Effective SFAS No. 133 hedging results in adjustments to the recorded value of the hedged loans. These basis adjustments, as well as the change in fair value of derivatives attributable to effective hedging, are included as a component of the gain or loss on the sale of loans in mortgage banking noninterest income.

Warehouse loans qualifying for SFAS No. 133 hedge accounting treatment totaled $1.6 billion and $1.0 billion on September 30, 2007 and 2006, respectively. The balance sheet impacts of the related derivatives were net liabilities of $9.5 million and $5.7 million on September 30, 2007 and 2006, respectively. Net losses of $14.5 million and $11.4 million representing the ineffective portion of these fair value hedges were recognized as a component of gain or loss on sale of loans for the nine months ended September 30, 2007 and 2006, respectively.

In 2006, due to adoption of SFAS No. 156, First Horizon began revaluing MSR to current fair value each month. Changes in fair value are included in servicing income in mortgage banking noninterest income. First Horizon Home Loans also enters into economic hedges of the MSR to minimize the effects of loss in value of MSR associated with increased prepayment activity that generally results from declining interest rates. In a rising interest rate environment, the value of the MSR generally will increase while the value of the hedge instruments will decline. First Horizon Home Loans enters into interest rate contracts (including swaps, swaptions, and mortgage forward sales contracts) to hedge against the effects of changes in fair value of its MSR. Substantially all capitalized MSR are hedged for economic purposes.

First Horizon Home Loans utilizes derivatives (including swaps, swaptions, and mortgage forward sales contracts) that change in value inversely to the movement of interest rates to protect the value of its interest-only securities as an economic hedge. Changes in the fair value of these derivatives are recognized currently in earnings in mortgage banking noninterest income as a component of servicing income. Interest-only securities are included in trading securities with changes in fair value recognized currently in earnings in mortgage banking noninterest income as a component of servicing income.

<u>Capital Markets</u>

Capital Markets trades U.S. Treasury, U.S. Agency, mortgage-backed, corporate and municipal fixed income securities, and other securities 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 options, caps, swaps, futures and floors for its customers. In addition, Capital Markets enters into futures contracts to economically hedge interest rate risk associated with 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 balance sheet as other assets and other liabilities. Credit risk related to these transactions is controlled through credit approvals, risk control limits and ongoing monitoring procedures through the Senior Credit Policy Committee.

Note 11 – Derivatives (continued)

In 2005, Capital Markets utilized a forward contract as a cash flow hedge of the risk of change in the fair value of a forecasted sale of certain loans. In first quarter 2006, $.1 million of net losses which were recorded in other comprehensive income on December 31, 2005, were recognized in earnings. The amount of SFAS No. 133 hedge ineffectiveness related to this cash flow hedge was immaterial.

In third quarter 2007, Capital Markets hedged $47.5 million of held-to-maturity trust preferred securities, which have an initial fixed rate term of five years before conversion to a floating rate. Capital Markets has entered into pay fixed, receive floating interest rate swaps to hedge the interest rate risk associated with this initial five year term. The balance sheet impact of those swaps was $.2 million in other liabilities on September 30, 2007. Interest paid or received for these swaps was recognized as an adjustment of the interest income of the assets whose risk in being hedged.

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 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. FHN’s interest rate risk management policy is to use derivatives not to speculate but to hedge interest rate risk or market value of assets or liabilities. In addition, FHN has entered into certain interest rate swaps and caps as a part of a product offering to commercial customers with customer derivatives paired with offsetting market instruments that, when completed, are designed to eliminate market 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 income.

FHN has entered into pay floating, receive fixed interest rate swaps to hedge the interest rate risk of certain large institutional certificates of deposit, totaling $62.2 million and $61.4 million on September 30, 2007 and 2006, respectively. These swaps have been accounted for as fair value hedges under the shortcut method. The balance sheet impact of these swaps was $.3 million and $1.1 million in other liabilities on September 30, 2007 and 2006, respectively. Interest paid or received for these swaps was recognized as an adjustment of the interest expense of the liabilities whose risk is being managed.

FHN has entered into pay floating, receive fixed interest rate swaps to hedge the interest rate risk of certain long-term debt obligations, totaling $1.1 billion on September 30, 2007 and 2006. These swaps have been accounted for as fair value hedges under the shortcut method. The balance sheet impact of these swaps was $3.1 million in other assets and $10.7 million in other liabilities on September 30, 2007, and $2.0 million in other assets and $19.0 million in other liabilities on September 30, 2006. Interest paid or received for these swaps was recognized as an adjustment of the interest expense of the liabilities whose risk is being managed.

In first quarter 2006, FHN determined that derivative transactions used in hedging strategies to manage interest rate risk on subordinated debt related to its trust preferred securities did not qualify for hedge accounting under the shortcut method. As a result, any fluctuations in the market value of the derivatives should have been recorded through the income statement with no corresponding offset to the hedged item. While management believes these hedges would have qualified for hedge accounting under the long haul method, that accounting cannot be applied retroactively. FHN evaluated the impact to all quarterly and annual periods since the inception of the hedges and concluded that the impact was immaterial in each period. In first quarter 2006, FHN recorded an adjustment to recognize the cumulative impact of these transactions that resulted in a negative $15.6 million impact to noninterest income, which was included in current earnings. FHN has subsequently redesignated these hedge relationships under SFAS No. 133 using the long haul method. For the period of time during first quarter 2006 that these hedge relationships were not redesignated under SFAS No. 133, the swaps were measured at fair value with gains or losses included in current earnings. FHN has entered into pay floating, receive fixed interest rate swaps to hedge the interest rate risk of certain subordinated debt totaling $.3 billion on September 30, 2007 and 2006. The balance sheet impact of these swaps was $21.4 million and $20.4 million in other liabilities on September 30, 2007 and 2006, respectively. There was no ineffectiveness related to these hedges. Interest paid or received for these swaps was recognized as an adjustment of the interest expense of the liabilities whose risk is being managed.

FHN has utilized an interest rate swap as a cash flow hedge of the interest payment on floating-rate bank notes with fair values of $100.1 million and $100.6 million on September 30, 2007 and 2006, respectively, and a maturity in first quarter 2009. The balance sheet impact of this swap was $.1 million in other assets and $82 thousand, net of tax, in other comprehensive income on September 30, 2007, and was $.6 million in other assets and $.4 million, net of tax, in other comprehensive income on September 30, 2006. There was no ineffectiveness related to this hedge.

Note 12 - Restructuring, Repositioning, and Efficiency Charges

Throughout 2007, FHN has conducted an ongoing, company-wide review of business practices with the goal of improving its overall profitability and productivity. As a result of actions taken in second quarter 2007, FHN recorded pre-tax expenses of $39.3 million related to restructuring, repositioning, and efficiency initiatives, including $16.9 million of losses related to asset impairments. Additionally, in third quarter 2007 management announced its intention to sell 34 full-service First Horizon Bank branches in its national banking markets, as well as plans to right size First Horizon Home Loans' mortgage banking operations and balance sheet utilization and to downsize FHN's national lending operations, in order to redeploy capital to higher-return businesses. Costs recognized in the nine months ended September 30, 2007 related to those restructuring, repositioning, and efficiency activities were $72.1 million, with approximately $32.8 million in pre-tax expenses recorded in third quarter. Of these amounts, $29.8 million and $15.0 million, respectively, represents exit costs that have been accounted for in accordance with Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146).

Significant expenses year-to-date for 2007 resulted from the following actions:

- Expense of $18.8 million associated with organizational and compensation changes for right sizing operating segments and consolidating functional areas.
- Non-core business repositioning costs of $17.4 million, including costs associated with the exit of the collectible coin merchandising business and the transition of the non-prime mortgage origination business to a broker model.
- Expense of $14.3 million related to other restructuring, repositioning, and efficiency initiatives, including facilities consolidation, procurement centralization, multi-sourcing and the divestiture of certain loan portfolios.
- Costs of $18.0 million related to the divestiture of 34 full-service First Horizon Bank locations in Virginia, Maryland, Georgia, and Texas, including $13.9 million for the writedown of intangibles.
- Expense of $3.6 million related to the restructuring of mortgage operations through office closures, associated sales force decreases, and the reduction of management and support staff and downsizing of national lending operations through the reduction of consumer and construction sales forces and decreasing management, support staff and back-office costs.

Provision for loan losses of $7.7 million were incurred in second quarter 2007 in relation to the divestiture of a non-strategic loan portfolio. All other costs associated with the restructuring, repositioning, and efficiency initiatives implemented by management are included in the noninterest expense section of the Consolidated Condensed Statements of Income, including severance and other employee-related costs recognized in relation to such initiatives which are recorded in employee compensation, incentives, and benefits, facilities consolidation costs and related asset impairment costs which are included in occupancy, costs associated with the impairment of premises and equipment which are included in equipment rentals, depreciation, and maintenance, and other costs associated with such initiatives, including professional fees, intangible asset impairment costs, and asset impairment and repositioning costs associated with the exit from the collectible coin merchandising business, which are included in all other expense and goodwill impairment. In total, up to $40 million in gains are expected in fourth quarter 2007 and first quarter 2008 in relation to the First Horizon Bank branch divestitures. Additionally, pre-tax expenses of approximately $20 to $30 million are anticipated to be recognized in relation to the continuing implementation of the existing restructuring, repositioning, and efficiency initiatives through the targeted completion date for such initiatives at the end of first quarter 2008. At this time, the exact amounts and timing of these additional charges are still being determined.

Activity in the restructuring and repositioning liability for the three and nine months ended September 30, 2007 is presented in the following table, along with other restructuring and repositioning expenses recognized. All costs associated with the restructuring, repositioning, and efficiency initiatives implemented in second and third quarters 2007 are recorded as unallocated corporate charges within the Corporate segment.

Note 12 - Restructuring, Repositioning, and Efficiency Charges (continued)

(Dollars in thousands)	Three Months Ended September 30, 2007		Nine Months Ended September 30, 2007	
	Charged to Expense	Liability	Charged to Expense	Liability
Beginning Balance	$ -	$ 10,849	$ -	$ -
Severance and other employee related costs*	9,258	9,258	17,255	17,255
Facility consolidation costs	2,836	2,836	6,624	6,624
Other exit costs, professional fees and other	2,933	2,933	5,902	5,902
Total Accrued	15,027	25,876	29,781	29,781
Payments**	-	8,690	-	12,595
Accrual Reversals	-	294	-	294
Restructuring & Repositioning Reserve Balance	$ 15,027	$ 16,892	$ 29,781	$ 16,892
Other Restructuring & Repositioning Expenses:				
Loan Portfolio Divestiture	-		7,672	
Impairment of Premises and Equipment	3,876		9,035	
Impairment of Intangible Assets	13,919		13,919	
Impairment of Other Assets	-		11,733	
Total Other Restructuring & Repositioning Expenses	17,795		42,359	
Total Charged to Expense	$ 32,822		$ 72,140	

* Includes $1.2 million of deferred severance-related payments that will be paid after 2008.

** Includes payments related to:	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Severance and other employee related costs	$ 5,001	$ 7,338
Facility consolidation costs	1,157	1,207
Other exit costs, professional fees and other	2,532	4,050
	$ 8,690	$12,595

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL INFORMATION

FHN is a national financial services institution. From a small community bank chartered in 1864, FHN has grown to be one of the 30 largest bank holding companies in the United States in terms of asset size.

FHN's 11,000 employees provide a broad array of financial services to individual and business customers through hundreds of offices located across the United States.

AARP, Working Mother and Fortune magazines have recognized FHN as one of the nation's best employers. FHN also was named one of the nation's 100 best corporate citizens by CRO magazine.

FHN provides a broad array of financial services to its customers through three national businesses. The combined strengths of these businesses create an extensive range of financial products and services. In addition, the corporate segment provides essential support within the corporation.

§ Retail/Commercial Banking offers financial products and services, including traditional lending and deposit-taking, to retail and commercial customers. Additionally, the retail/commercial bank provides investments, insurance, financial planning, trust services and asset management, credit card, cash management, check clearing, and correspondent services. On March 1, 2006, FHN sold its national merchant processing business. The divestiture which was included in the Retail/Commercial Banking segment was accounted for as a discontinued operation.

§ Mortgage Banking helps provide home ownership through First Horizon Home Loans, a division of First Tennessee Bank National Association (FTBNA), which operates offices in 44 states and is one of the top 20 mortgage servicers and top 20 originators of mortgage loans to consumers. This segment consists of core mortgage banking elements including originations and servicing and the associated ancillary revenues related to these businesses.

§ Capital Markets provides a broad spectrum of financial services for the investment and banking communities through the integration of traditional capital markets securities activities, structured finance, equity research, investment banking, loan sales, portfolio advisory, and the sale of bank-owned life insurance.

§ Corporate consists of unallocated corporate expenses including restructuring, repositioning and efficiency charges, expense on subordinated debt issuances and preferred stock, 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 and venture capital.

For the purpose of this management discussion and analysis (MD&A), earning assets have been expressed as averages, and loans have been disclosed net of unearned income. The following is a discussion and analysis of the financial condition and results of operations of FHN for the three-month and nine-month periods ended September 30, 2007, compared to the three-month and nine-month periods ended September 30, 2006. To assist the reader in obtaining a better understanding of FHN and its performance, this discussion should be read in conjunction with FHN's unaudited consolidated condensed financial statements and accompanying notes appearing in this report. Additional information including the 2006 financial statements, notes, and MD&A is provided in the 2006 Annual Report.

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 even and 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 a company'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, general and local economic and business conditions; expectations of and actual timing and amount of interest rate movements, including the slope of the yield curve (which can have a significant impact on a financial services institution); market and monetary fluctuations; inflation or deflation; customer and investor responses to 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 of FHN's hedging practices; technology; demand for FHN's product offerings; new products and services in the industries in which FHN operates; and critical accounting estimates. Other factors are those inherent in originating, selling and servicing loans including prepayment risks, pricing concessions, fluctuation in U.S. housing 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, Financial Industry Regulatory Authority, and other regulators; regulatory and judicial proceedings and 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. FHN assumes no obligation to update any forward-looking statements that are made from time to time. Actual results could differ because of several factors, including those presented in this Forward-Looking Statements section.

FINANCIAL SUMMARY (Comparison of Third Quarter 2007 to Third Quarter 2006)

FINANCIAL HIGHLIGHTS

For third quarter 2007, FHN recorded a net loss of $14.2 million or $.11 per diluted share compared to net income of $67.1 million or $.53 per diluted share in third quarter 2006. Third quarter 2007 was impacted by several items including credit market disruptions, restructuring, repositioning and efficiency initiatives and additional provisioning. Throughout 2007, FHN has conducted an ongoing, company-wide review of business practices with the goal of improving its overall profitability and productivity. As a result of actions taken in the second quarter of 2007, FHN recorded pre-tax expenses of $39.3 million related to restructuring, repositioning, and efficiency initiatives. Additionally, in third quarter 2007 management announced its intention to sell 34 full-service First Horizon Bank branches in its national banking markets, as well as plans to right size First Horizon Home Loans' mortgage banking operations and to downsize FHN's national lending operations, in order to redeploy capital to higher-return businesses. Costs recognized in the nine months ended September 30, 2007 related to those restructuring, repositioning, and efficiency activities were $72.1 million, with $32.8 million in pre-tax expenses recorded in third quarter. Significant expenses resulted from the following actions:

- Expense associated with organizational and compensation changes for right sizing operating segments and consolidating functional areas.
- Non-core business repositioning costs including costs associated with the exit of the collectible coin merchandising business and the transition of the non-prime mortgage origination business to a broker model.
- Expense related to other restructuring, repositioning, and efficiency initiatives, including facilities consolidation, procurement centralization, multi-sourcing and the divestiture of certain loan portfolios.
    - Costs related to the divestiture of 34 full-service First Horizon Bank locations in Virginia, Maryland, Georgia, and Texas, including $13.9 million for the writedown of intangibles.
- Expense related to the restructuring of mortgage operations through office closures, associated sales force decreases, and the reduction of management and support staff and downsizing of national lending operations through the reduction of consumer and construction sales forces and decreasing management, support staff and back-office costs.

The Tennessee banking franchise experienced growth in profitability which was offset by additional provisioning and fewer loan sales in national businesses. In the third quarter 2007, Mortgage Banking and Capital Markets were also negatively impacted by credit market disruptions.

Assessment of the results of operations for periods which include third quarter 2007 requires an understanding of the causes and effects of dislocations within credit markets which existed during the quarter. As higher levels of borrower defaults on adjustable rate loans were experienced throughout the industry in 2007 (primarily occurring upon repricing of the loans to higher interest rates), investor appetite for all types of credit structures was severely curtailed if not completely eliminated in certain circumstances (e.g., home equity lines of credit). As a result of increasing credit risk aversion by investors, coupon rates for all credit structures increased and FHN was adversely impacted by spread widening. FHN was adversely affected as a result of this process.

Within Mortgage Banking operations, the widening of credit spreads resulted in losses on sales within the prime nonconforming mortgage market. This negative effect was partially offset by improvements in hedging results and a decrease in servicing runoff. For assets that remained on the Consolidated Condensed Statements of Condition which are accounted for at fair value or the lower of cost or market, the wider credit spreads were utilized in valuation methodologies and produced lower asset values in comparison to prior periods, including lower of cost or market adjustments to the loan warehouse. Further, estimated market values for less than liquid retained interests in securitizations declined due to the higher discount rates in valuations.

Similarly, the Retail/Commercial Banking segment experienced limited demand for consumer loan sales. This segment also recognized adjustments to reflect the market value of consumer loans held for sale and lower values of residual interests related to prior securitizations. Additionally, given the market's reduced appetite for credit products, structured finance fees, including fees from pooled trust preferred transactions, within the Capital Markets segment were adversely affected by lower transaction volumes and wider credit spreads.

Return on average shareholders' equity and return on average assets were (2.3) percent and (.15) percent, respectively, for third quarter 2007. Return on average shareholders' equity and return on average assets were 10.9 percent and .67 percent, respectively, for third quarter 2006. Total assets were $37.5 billion and shareholders' equity was $2.4 billion on September 30, 2007, compared to $40.1 billion and $2.5 billion, respectively, on September 30, 2006.

BUSINESS LINE REVIEW

Retail/Commercial Banking

Pre-tax income for Retail/Commercial Banking was $78.3 million for third quarter 2007 compared to $115.4 million for third quarter 2006. Total revenues for Retail/Commercial Banking were $314.9 million for third quarter 2007 compared to $344.4 million for third quarter 2006.

Net interest income was $219.5 million in third quarter 2007 compared to $232.9 million in third quarter 2006. The Retail/Commercial Banking net interest margin was 3.88 percent in third quarter 2007 compared to 4.23 percent in the third quarter of last year. This compression resulted from the contracting housing market which created competitive pricing pressure and additional nonaccrual loans. Also unfavorably impacting the margin were higher deposit rates paid in Tennessee markets.

Noninterest income was $95.4 million in third quarter 2007 compared to $111.5 million in third quarter 2006. This decrease primarily resulted from negative incremental lower of cost or market (LOCOM) adjustment of $7.3 million on consumer loans (HELOC and second liens) recognized in third quarter 2007 to reflect recent market illiquidity. Revenue from loan sales and securitizations decreased $6.0 million, or 60 percent, primarily due to a decline in the volume of loans delivered into the secondary markets.

Provision for loan losses increased to $43.3 million in third quarter 2007 from $23.6 million last year. The $19.7 million increase primarily reflects deterioration in national homebuilder and one-time close construction loans.

Noninterest expense decreased 6 percent to $193.3 million in third quarter 2007 from $205.4 million last year. Noninterest expense decreased as personnel costs declined from a combination of reduced variable compensation costs on loan originations as well as the effect of efficiency initiatives.

Mortgage Banking

Mortgage Banking had a pre-tax loss of $45.8 million in third quarter 2007, compared to pre-tax loss of $25.3 million in third quarter 2006. Total revenues for Mortgage Banking were $62.8 million for third quarter 2007 compared to $111.6 million for third quarter 2006.

Net interest income was relatively flat at $20.6 million in third quarter 2007 compared to $21.2 million in third quarter 2006. Positively impacting net interest income, the spread on the warehouse increased 16 basis points to 1.34 percent in third quarter 2007 compared to the same period in 2006, the average warehouse increased 5 percent compared to last year and there was an increase of $5.3 million due to the reclassification of $175 million from excess mortgage servicing rights to trading securities in second quarter 2007. This reclassification was the outcome of capital management initiatives which resulted in modification of the Pooling and Servicing Agreements (PSA) for private (non-GSE) securitizations which were active as of March 31, 2007. The modifications separated master servicing from retained yield. Offsetting the increase in net interest income was a decline in servicing fees and a decline in the change of mortgage servicing rights (MSR) value due to runoff. Also negatively impacting net interest income was the cost to fund a larger balance sheet and a decrease in custodial balances.

Noninterest income was $42.2 million in third quarter 2007 compared to $90.4 million in third quarter 2006. Noninterest income consists primarily of mortgage banking-related revenue, net of costs, from the origination and sale of mortgage loans, fees from mortgage servicing and changes in fair value of MSR net of hedge gains or losses.

Net origination income declined to a loss of $17.5 million in third quarter 2007 compared to income of $64.2 million last year as credit market deterioration produced negative gain on sale margins as well as LOCOM adjustments on warehouse loans. Loans delivered into the secondary market increased $.9 billion, but the margin on deliveries decreased from 77 basis points in third quarter 2006 to negative 33 basis points in 2007. Total mortgage servicing fees decreased 11 percent to $76.7 million from $86.2 million as the change in PSA reduced income by $12.8 million offset by an 8 percent increase in the servicing portfolio.

Servicing hedging activities and changes other than runoff in the value of capitalized servicing assets positively impacted net revenues by $32.2 million this quarter as spreads between mortgage and swap rates widened, option volatility increased, and seasonality moved in our favor. Additionally, the change in MSR value due to runoff increased net revenues by $11.4 million in third quarter 2007 compared to last year primarily due to increases in coupon rates on non-conforming loans and disruptions in the mortgage market.

Noninterest expense was $108.6 million in third quarter 2007 compared to $136.8 million in third quarter 2006. Third quarter 2006 included $21.3 million for the estimated costs of settling a class action lawsuit. Additionally, noninterest expense was impacted by lower personnel costs and other efficiency initiatives.

Capital Markets

Capital Markets had a pre-tax loss of $7.7 million in third quarter 2007 compared to pre-tax income of $15.2 million in third quarter 2006. Total revenues for Capital Markets were $59.6 million in third quarter 2007 compared to $97.0 million in third quarter 2006. Net interest expense was $2.2 million in third quarter 2007 compared to net interest expense of $1.5 million in third quarter 2006.

Revenues from fixed income sales increased to $46.0 million in third quarter 2007 from $41.5 million in third quarter 2006. Other product revenues were $15.8 million in third quarter 2007 compared to $57.0 million in third quarter 2006. Revenues from other products include fee income from activities such as structured finance, equity research, investment banking, loan sales, portfolio advisory and the sale of bank-owned life insurance. This decline was primarily due to decreases in structured finance activities which were significantly impacted by credit market disruptions in third quarter 2007.

Noninterest expense was $67.3 million in third quarter 2007 compared to $81.8 million in third quarter 2006. This decrease was primarily due to decreased variable compensation related to the decline in product revenues and the effect of efficiency initiatives.

Corporate

The Corporate segment's results yielded a pre-tax loss of $48.5 million in third quarter 2007 compared to a pre-tax loss of $12.4 million in third quarter 2006. Results for the third quarter 2007 include $32.8 million of expense associated with implementation of restructuring, repositioning and efficiency initiatives. See discussion of the restructuring, repositioning and efficiency initiatives below for further details. The third quarter 2006 results include $8.8 million of net securities gains from the sale of MasterCard Inc. securities and net securities gains from venture capital investments. This gain was partially offset by the write-off of a holding company investment, venture capital commissions and project costs in 2006.

RESTRUCTURING, REPOSITIONING, AND EFFICIENCY INITIATIVES

Throughout 2007, FHN has conducted an ongoing, company-wide review of business practices with the goal of improving its overall profitability and productivity. As a result of actions taken in third quarter 2007 related to such activities, FHN recorded pre-tax expenses of $32.8 million. In second quarter 2007, FHN recorded pre-tax expenses of $39.3 million related to restructuring, repositioning, and efficiency initiatives, including $16.9 million of losses related to asset impairments. Additionally, in third quarter 2007 management announced its intention to sell 34 full-service First Horizon Bank branches in its national banking markets, as well as plans to right size First Horizon Home Loans' mortgage banking operations and balance sheet utilization and to downsize FHN's national lending operations, in order to redeploy capital to higher-return businesses. Provision for loan losses of $7.7 million were incurred in second quarter 2007 in relation to the divestiture of a non-strategic loan portfolio, while all other costs incurred in relation to the restructuring, repositioning, and efficiency initiatives implemented by management are included in noninterest expense. All costs associated with the initiatives implemented in second and third quarters 2007 are recorded as unallocated corporate charges within the Corporate segment. Significant expenses year-to-date for 2007 resulted from the following actions:

- Expense of $18.8 million associated with organizational and compensation changes for right sizing operating segments and consolidating functional areas.
- Non-core business repositioning costs of $17.4 million, including costs associated with the exit of the collectible coin merchandising business and the transition of the non-prime mortgage origination business to a broker model.
- Expense of $14.3 million related to other restructuring, repositioning, and efficiency initiatives, including facilities consolidation, procurement centralization, multi-sourcing and the divestiture of certain loan portfolios.
- Costs of $18.0 million related to the divestiture of 34 full-service First Horizon Bank locations in Virginia, Maryland, Georgia, and Texas, including $13.9 million for the writedowns of intangibles.
- Expense of $3.6 million related to the restructuring of mortgage operations through office closures, associated sales force decreases, and the reduction of management and support staff and downsizing of national lending operations through the reduction of consumer and construction sales forces and decreasing management, support staff and back-office costs.

In total, up to $40 million in gains are expected in fourth quarter 2007 and first quarter 2008 in relation to the First Horizon Bank branch divestitures. Additionally, pre-tax expenses of approximately $20 to $30 million are anticipated to be recognized in relation to the continuing implementation of the existing restructuring, repositioning, and efficiency initiatives through the targeted completion date for such initiatives at the end of first quarter 2008. Settlement of the obligations arising from current initiatives will primarily occur in fourth quarter 2007 and first quarter 2008 and will be funded from operating cash flows. As a result of the planned sale of 34 First Horizon Bank branches, the assets and liabilities related to such branches are reflected as held-for-sale on the Consolidated Condensed Statements of Condition. The aggregate carrying amounts of transferred loans, deposits, other assets, and other liabilities were approximately $565.5 million, $474.8 million, $22.6 million, and $39.4 million, respectively, as of September 30, 2007. Further, as a result of impairment assessments completed in relation to two First Horizon Bank branches to be sold, a goodwill writedown of $13.0 million and a writedown of core deposit intangibles of $.9 million were recognized in third quarter 2007. The goodwill impairment loss was estimated based on the implied fair value as of September 30, 2007 of the goodwill originally recognized upon FHN's purchase of such branches, and was calculated using the bid price for the associated branches. The fair value of the core deposit intangible asset was determined based on the discounted present value of cash flows remaining related to the associated deposit accounts. The recognition of these impairment losses will have no effect on FHN's debt covenants. Additional asset impairment losses of approximately $4 million were recognized in third quarter 2007 for property, plant, and equipment associated with facilities undergoing consolidation. The fair value of such property was determined based on appraised value or discounted cash flows as of the assessment date. The impairment losses related to such intangible assets and property, plant, and equipment, which are recorded as unallocated corporate charges within the Corporate segment, are included in all other expense on the Consolidated Condensed Statements of Income. As a result of the restructuring, repositioning, and efficiency initiatives implemented by management, it is anticipated that up to $175 million in aggregate annual pre-tax improvements should be experienced by first quarter 2008, with an additional $60 to $80 million in annual profitability improvements experienced through 2008 in relation to the First Horizon Bank branch divestitures and the restructuring of mortgage operations and national lending operations. Due to the broad nature of the actions being taken, all components of income and expense will be affected. In addition, management continues to explore additional initiatives for profitability improvement, including opportunities for balance sheet repositioning and the redeployment of capital which may include targeted reductions of MSR.

Charges related to restructuring, repositioning, and efficiency initiatives for the three and nine months ended September 30, 2007, are presented in the following table based on the income statement line item affected. See Note 12 – Restructuring, Repositioning, and Efficiency Charges and Note 2 – Acquisitions/Divestitures for additional information.

Table 1 - Charges for Restructuring, Repositioning, and Efficiency Initiatives

	Three Months Ended September 30	Nine Months Ended September 30
(Dollars in thousands)	**2007**	**2007**
Provision for loan losses	**$ -**	**$ 7,672**
Noninterest expense:		
Employee compensation, incentives and benefits	**9,269**	**17,266**
Occupancy	**5,074**	**8,800**
Equipment rentals, depreciation and maintenance	**846**	**6,067**
Operations services	**25**	**25**
Communications and courier	**27**	**27**
Goodwill impairment	**13,010**	**13,010**
All other expense	**4,571**	**19,273**

Total noninterest expense	**32,822**	**64,468**
Loss before income taxes	**$ 32,822**	**$ 72,140**

INCOME STATEMENT REVIEW

Total revenues (net interest income and noninterest income) were $441.2 million in third quarter 2007 compared to $569.5 million in 2006. Net interest income was $237.8 million in third quarter 2007 compared to $251.6 million in 2006 and noninterest income was $203.4 million in 2007 compared to $317.9 million in 2006. A discussion of the major line items follows.

NET INTEREST INCOME

Net interest income decreased 5 percent to $237.8 million in third quarter 2007. Earning assets decreased 5 percent to $33.0 billion and interest-bearing liabilities decreased 5 percent to $28.5 billion in third quarter 2007.

The activity levels and related funding for FHN's mortgage production and servicing and capital markets activities affect the net interest margin. These activities typically produce different margins than traditional banking activities. Mortgage production and servicing activities can affect the overall margin based on a number of factors, including the shape of the yield curve, the size of the mortgage warehouse, the time it takes to deliver loans into the secondary market, the amount of custodial balances, and the level of MSR. Capital markets activities tend to compress the margin because of its strategy to reduce market risk by economically hedging a portion of its inventory on the balance sheet. As a result of these impacts, FHN's consolidated margin cannot be readily compared to that of other bank holding companies.

The consolidated net interest margin was 2.87 percent for third quarter 2007 compared to 2.89 percent for third quarter 2006. This compression in the margin occurred as the net interest spread decreased to 2.21 percent from 2.24 percent in 2006 while the impact of free funding increased from 65 basis points to 66 basis points. The margin was negatively impacted by competitive pricing pressure in a contracting housing market, additional nonaccrual loans and higher deposit rates in Tennessee markets. The decline related to these factors was largely offset by changes in earning asset mix and the change in PSA described above.

Table 2 - Net Interest Margin

	Three Months Ended September 30	
	2007	2006
Consolidated yields and rates:		
Loans, net of unearned income	**7.39%**	7.59%
Loans held for sale	**6.72**	6.88
Investment securities	**5.57**	5.66
Capital markets securities inventory	**5.59**	5.41
Mortgage banking trading securities	**12.21**	11.31
Other earning assets	**5.02**	5.09
Yields on earning assets	**7.02**	7.03
Interest-bearing core deposits	**3.40**	3.17
Certificates of deposits $100,000 and more	**5.40**	5.36
Federal funds purchased and securities sold under agreements to repurchase	**4.82**	4.83
Capital markets trading liabilities	**5.28**	5.61
Commercial paper and other short-term borrowings	**5.05**	5.25
Long-term debt	**5.84**	5.80
Rates paid on interest-bearing liabilities	**4.81**	4.79
Net interest spread	**2.21**	2.24
Effect of interest-free sources	**.66**	.65
FHN - NIM	**2.87%**	2.89%

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

Going forward, the NIM is expected to experience modest improvement driven by a steeper yield curve and the reduction of lower margin businesses including the sale of the First Horizon Bank branches and the reduction of the national consumer lending portfolio.

NONINTEREST INCOME

Mortgage Banking Noninterest Income

First Horizon Home Loans offers residential mortgage banking products and services to customers, which consist primarily of the origination or purchase of single-family residential mortgage loans. First Horizon Home Loans originates mortgage loans through its retail and wholesale operations and also purchases mortgage loans from third-party mortgage bankers for sale to secondary market investors and subsequently provides servicing for the majority of those loans.

Origination income includes origination fees, net of costs, gains/(losses) recognized on loans sold including the capitalized fair value of MSR, and the value recognized on loans in process including results from hedging. Origination fees, net of costs (including incentives and other direct costs), are deferred and included in the basis of the loans in calculating gains and losses upon sale. Gain or loss is recognized due to changes in fair value of an interest rate lock commitment made to the customer. Gains or losses from the sale of loans are recognized at the time a mortgage loan is sold into the secondary market. Origination income declined to a loss of $17.5 million in third quarter 2007 compared to $64.2 million due to credit market deterioration. Loans delivered into the secondary market were increased $.9 billion, but the margin on deliveries decreased from 77 basis points in third quarter 2006 to negative 33 basis points in 2007.

Servicing income includes servicing fees, changes in the fair value of the MSR asset and net gains or losses from hedging MSR. First Horizon Home Loans employs hedging strategies intended to counter changes in the value of MSR and other retained interests due to changing interest rate environments (refer to discussion of MSR under Critical Accounting Policies). Total mortgage servicing fees decreased 11 percent to $76.7 million from $86.2 million as the change in PSA reduced income by $12.8 million offset by an 8 percent increase in the servicing portfolio.

Servicing hedging activities and changes other than runoff in the value of capitalized servicing assets positively impacted net revenues by $32.2 million this quarter as compared to a year ago due to higher interest rate swap spreads. Additionally, the change in MSR value due to runoff increased net revenues by $11.4 million compared to third quarter 2006 due to market disruptions described in the Business Line Review.

Other income includes FHN's share of earnings from nonconsolidated subsidiaries accounted for under the equity method, which provide ancillary activities to mortgage banking, and fees from retail construction lending.

Table 3 - Mortgage Banking Noninterest Income

	Three Months Ended September 30		Percent Change		Nine Months Ended September 30		Percent Change	
	2007	2006	(%)		**2007**	2006	(%)	
Noninterest income *(thousands)*:								
Origination (loss)/ income	**$ (17,494)**	$ 64,248	NM		**$ 113,428**	$ 238,869	52.5	-
Servicing income	**49,738**	15,701	216.8	+	**49,250**	25,691	91.7	+
Other	**6,778**	5,986	13.2	+	**20,741**	18,529	11.9	+
Total mortgage banking noninterest income	**$ 39,022**	$ 85,935	54.6	-	**$ 183,419**	$ 283,089	35.2	-
Mortgage banking statistics *(millions)*:								
Refinance originations	**$ 2,067.1**	$ 2,091.8	1.2	-	**$ 7,909.8**	$ 7,389.2	7.0	+
Home-purchase originations	**4,605.2**	4,258.7	8.1	+	**13,157.3**	13,308.1	1.1	-
Mortgage loan originations	**$ 6,672.3**	$ 6,350.5	5.1	+	**$ 21,067.1**	$ 20,697.3	1.8	+
Servicing portfolio	**$108,400.8**	$100,245.7	8.1	+	**$108,400.8**	$100,245.7	8.1	+

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

Capital Markets Noninterest Income

Capital markets noninterest income, the major component of revenue in the Capital Markets segment, is generated from the purchase and sale of securities as both principal and agent, and from other fee sources including structured finance, equity research, investment banking, loans sales, and portfolio advisory activities. Inventory positions are limited to the procurement of securities solely for distribution to customers by the sales staff. A portion of the inventory is hedged to protect against movements in fair value due to changes in interest rates.

Revenues from fixed income sales increased $4.5 million compared to third quarter 2006. Other product revenues decreased $36.0 million primarily due to lower fees from structured finance activities.

Table 4 - Capital Markets Noninterest Income

	Three Months Ended September 30	Growth	Nine Months Ended September 30	Growth

(Dollars in thousands)	**2007**	2006	Rate (%)		**2007**	2006	Rate (%)	
Noninterest income:								
Fixed income	**$46,003**	$41,503	10.8	+	**$140,574**	$133,948	4.9	+
Other product revenue	**17,719**	53,712	67.0	-	**95,315**	156,290	39.0	-
Total capital markets noninterest income	**$63,722**	$95,215	33.1	-	**$235,889**	$290,238	18.7	-

Other Noninterest Income

Other noninterest income includes deposit transactions and cash management fees, revenue from loan sales and securitizations, insurance commissions, trust services and investment management fees, net securities gains and losses and other noninterest income. Revenue from loan sales and securitizations decreased $7.0 million, or 60 percent, primarily due to a decline in the volume of loans delivered into the secondary markets. Third quarter 2006 results include $8.8 million of net securities gains, primarily due to the sale of MasterCard Inc. securities and net securities gains from venture capital investments. Other noninterest income decreased $17.1 million reflecting a decrease of $6.4 million in other revenues in 2007 related to deferred compensation plans, which is offset by a related decrease in noninterest expense associated with these plans and a negative incremental LOCOM adjustment of $7.3 million on consumer loans (HELOC and second liens) recognized in third quarter 2007 to reflect market illiquidity.

NONINTEREST EXPENSE

Total noninterest expense for third quarter 2007 decreased 7 percent to $421.6 million from $452.9 million in 2006. Employee compensation, incentives and benefits (personnel expense), the largest component of noninterest expense, decreased to $236.6 million from $260.3 million in 2006. Impacting compensation, incentives and benefits in third quarter 2007 were $9.3 million of restructuring, repositioning and efficiency charges. This increase was offset by a continued corporate focus on efficiency and reductions in personnel expense in mortgage banking and capital markets directly related to the contraction in revenue. Included in these results was a decrease of $7.7 million in 2007 related to deferred compensation plans. The $5.0 million increase in occupancy is primarily related to restructuring, repositioning and efficiency charges. Goodwill impairment of $13.0 million related to the sale of First Horizon Bank branches was recognized in third quarter 2007. All other noninterest expense decreased 21 percent, or $23.2 million as compared to third quarter 2006 reflecting the continued corporate focus on efficiency. All other noninterest expense included $4.6 million of restructuring, repositioning and efficiency charges. In 2006, all other expense included $21.3 million related to the estimated settlement costs of a class action lawsuit.

INCOME TAXES

The tax benefit of $9.3 million in third quarter 2007 primarily reflects FHN’s normal statutory federal and states rates, and permanent tax benefits of $7.1 million offset by $6.6 million of increased taxes for the writedown of non-deductible goodwill associated with the pending sale of First Horizon Bank branches.

PROVISION FOR LOAN LOSSES / ASSET QUALITY

The provision for loan losses is the charge to earnings that management determines to be necessary to maintain the allowance for loan losses at an adequate level reflecting management’s estimate of probable incurred losses in the loan portfolio. An analytical model based on historical loss experience adjusted for current events, trends and economic conditions is used by management to determine the amount of provision to be recognized and to assess the adequacy of the loan loss allowance. The provision for loan losses was $43.3 million in third quarter 2007 compared to $23.7 million in third quarter 2006, reflecting deterioration in national homebuilder and one-time close construction portfolios related to the general downturn in the housing industry. The net charge-off ratio increased to 57 basis points in third quarter 2007 from 30 basis points in third quarter 2006 as net charge-offs grew to $31.4 million from $16.4 million, driven mainly by the deterioration in the national homebuilder and one-time close residential real estate portfolio.

Table 5 - Net Charge-off Ratios *

	Three Months Ended September 30	
	2007	2006

Total commercial	**.55%**	.28%
Retail real estate	**.50**	.25
Other retail	**3.59**	2.71
Credit card receivables	**3.01**	1.99
Total net charge-offs	**.57**	.30

* Net charge-off ratios are calculated based in average loans, net of unearned income.

Table 7 provides information on the relative size of each loan portfolio.