FIRST HORIZON NATIONAL CORP
Form 10-Q
November 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from to

Commission File Number 001-15185

First Horizon National Corporation

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	**Outstanding on September 30, 2013**
Common Stock, $.625 par value	236,328,090

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FIRST HORIZON NATIONAL CORPORATION

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PART I.

FINANCIAL INFORMATION

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

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CONSOLIDATED CONDENSED STATEMENTS OF CONDITION

	First Horizon National Corporation		
	September 30		December 31
(Dollars in thousands, except restricted and share amounts)(Unaudited)	**2013**	2012	2012
Assets:			
Cash and due from banks (Restricted $1.5 million on September 30, 2013; $.6 million on September 30, 2012; and $ on December 31, 2012)	**$ 395,631**	$ 355,978	$ 469,879
Federal funds sold	**52,830**	12,425	34,492
Securities purchased under agreements to resell (Note 16)	**576,355**	517,263	601,891
Total cash and cash equivalents (Restricted $1.5 million on September 30, 2013; $.6 million on September 30, 2012; and $ on December 31, 2012)	**1,024,816**	885,666	1,106,262
Interest-bearing cash	**184,179**	440,916	353,373
Trading securities	**1,343,134**	1,204,366	1,262,720
Loans held-for-sale	**371,640**	410,550	401,937
Securities available-for-sale (Note 3)	**3,186,943**	3,123,629	3,061,808
Loans, net of unearned income (Restricted $.1 billion on September 30, 2013; September 30, 2012; and December 31, 2012) (Note 4)	**15,408,556**	16,523,783	16,708,582
Less: Allowance for loan losses (Restricted $3.2 million on September 30, 2013; $4.4 million on September 30, 2012; and $4.3 million on December 31, 2012) (Note 4)	**255,710**	281,744	276,963
Total net loans (Restricted $.1 billion on September 30, 2013; September 30, 2012; and December 31, 2012)	**15,152,846**	16,242,039	16,431,619
Mortgage servicing rights (Note 5)	**116,686**	120,537	114,311
Goodwill (Note 6)	**140,479**	134,242	134,242
Other intangible assets, net (Note 6)	**22,216**	23,679	22,700
Capital markets receivables	**417,743**	791,190	303,893
Premises and equipment, net	**308,779**	305,346	303,273
Real estate acquired by foreclosure	**71,626**	70,779	60,690
Derivative assets (Note 15)	**215,116**	334,025	292,472
Other assets (Restricted $1.4 million on September 30, 2013; $1.9 million on September 30, 2012 and December 31, 2012)	**1,637,138**	1,652,866	1,670,840
Total assets (Restricted $.1 billion on September 30, 2013; September 30, 2012; and December 31, 2012)	**$ 24,193,341**	$ 25,739,830	$ 25,520,140
Liabilities and equity:			
Deposits:			
Savings	**$ 6,781,522**	$ 6,608,534	$ 6,705,496
Time deposits	**997,726**	1,063,380	1,019,938
Other interest-bearing deposits	**3,494,236**	3,468,367	3,798,313
Certificates of deposit $100,000 and more	**575,679**	518,717	503,490
Interest-bearing	**11,849,163**	11,658,998	12,027,237
Noninterest-bearing	**4,434,746**	4,569,113	4,602,472
Total deposits	**16,283,909**	16,228,111	16,629,709
Federal funds purchased	**1,062,901**	1,350,806	1,351,023
Securities sold under agreements to repurchase (Note 16)	**427,232**	443,370	555,438
Trading liabilities	**585,969**	516,970	564,429

Other short-term borrowings	**303,686**	856,958	441,201
Term borrowings (Restricted $.1 billion on September 30, 2013; September 30, 2012; and December 31, 2012)	**1,771,288**	2,263,238	2,226,482
Capital markets payables	**388,373**	574,201	296,450
Derivative liabilities (Note 15)	**165,918**	225,084	202,269
Other liabilities	**770,772**	749,204	743,933
Total liabilities (Restricted $.1 billion on September 30, 2013; September 30, 2012; and December 31, 2012)	**21,760,048**	23,207,942	23,010,934
Equity:			
First Horizon National Corporation Shareholders Equity:			
Preferred stock Series A, non-cumulative perpetual, no par value, liquidation preference of $100,000 per share (shares authorized 1,000; shares issued 1,000 on September 30, 2013; on September 30, 2012 and December 31, 2012)	**95,624**		
Common stock $.625 par value (shares authorized 400,000,000; shares issued 236,328,090 on September 30, 2013; 247,133,973 on September 30, 2012; and 243,597,780 on December 31, 2012)	**147,705**	154,459	152,249
Capital surplus	**1,413,248**	1,517,488	1,488,463
Undivided profits	**657,676**	681,460	719,672
Accumulated other comprehensive loss, net (Note 8)	**(176,391)**	(116,684)	(146,343)
Total First Horizon National Corporation Shareholders Equity	**2,137,862**	2,236,723	2,214,041
Noncontrolling interest	**295,431**	295,165	295,165
Total equity	**2,433,293**	2,531,888	2,509,206
Total liabilities and equity	**$ 24,193,341**	$ 25,739,830	$ 25,520,140

See accompanying notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	First Horizon National Corporation			
	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars and shares in thousands except per share data, unless otherwise noted)(Unaudited)	**2013**	2012	**2013**	2012
Interest income:				
Interest and fees on loans	**$ 149,698**	$ 163,813	**$ 454,297**	$ 486,507
Interest on investment securities	**20,916**	24,136	**62,442**	76,413
Interest on loans held-for-sale	**3,058**	3,808	**9,729**	11,174
Interest on trading securities	**8,747**	8,392	**25,798**	27,450
Interest on other earning assets	**191**	367	**734**	1,210
Total interest income	**182,610**	200,516	**553,000**	602,754
Interest expense:				
Interest on deposits:				
Savings	**3,471**	4,764	**11,557**	15,127
Time deposits	**4,013**	5,169	**12,294**	16,626
Other interest-bearing deposits	**817**	1,455	**2,975**	4,628
Certificates of deposit $100,000 and more	**1,658**	1,975	**4,769**	6,586
Interest on trading liabilities	**3,632**	2,556	**10,182**	7,914
Interest on short-term borrowings	**1,103**	1,443	**3,565**	3,958
Interest on term borrowings	**9,078**	9,689	**27,419**	29,846
Total interest expense	**23,772**	27,051	**72,761**	84,685
Net interest income	**158,838**	173,465	**480,239**	518,069
Provision for loan losses	**10,000**	40,000	**40,000**	63,000
Net interest income after provision for loan losses	**148,838**	133,465	**440,239**	455,069
Noninterest income:				
Capital markets	**64,283**	80,773	**212,711**	262,429
Deposit transactions and cash management	**29,279**	30,352	**85,189**	89,216
Mortgage banking	**14,460**	10,373	**29,422**	43,603
Brokerage, management fees and commissions	**10,868**	8,699	**30,756**	25,954
Trust services and investment management	**6,649**	6,055	**19,927**	18,340
Insurance commissions	**733**	946	**2,063**	2,344
Gain on divestiture	**115**		**115**	200
Equity securities gains/(losses), net			**28**	5,065
Debt securities gains/(losses), net	**(96)**		**(451)**	328
All other income and commissions (Note 7)	**24,184**	26,340	**69,774**	77,407
Total noninterest income	**150,475**	163,538	**449,534**	524,886
Adjusted gross income after provision for loan losses	**299,313**	297,003	**889,773**	979,955
Noninterest expense:				
Repurchase and foreclosure provision	**200,000**		**200,000**	299,256
Employee compensation, incentives, and benefits (three and nine months ended September 30, 2013, include $17.2 million and $22.6 million, respectively, of expense associated with pension and post-retirement plans reclassified from accumulated other comprehensive income)	**132,213**	153,970	**401,897**	479,044

Occupancy	**13,147**	13,059	**37,754**	36,664
Legal and professional fees	**12,704**	12,295	**37,940**	26,779
Computer software	**10,446**	10,260	**30,130**	29,685
Contract employment and outsourcing	**9,241**	10,187	**26,861**	32,146
Operations services	**9,199**	8,702	**26,111**	27,306
Equipment rentals, depreciation, and maintenance	**7,890**	7,931	**23,307**	23,336
FDIC premium expense	**4,631**	7,532	**15,679**	20,669
Communications and courier	**4,517**	4,722	**13,485**	13,705
Miscellaneous loan costs	**1,349**	577	**3,508**	3,202
Amortization of intangible assets	**928**	979	**2,784**	2,931
Foreclosed real estate	**523**	2,968	**3,249**	9,046
All other expense (Note 7)	**26,768**	29,987	**78,799**	108,571
Total noninterest expense	**433,556**	263,169	**901,504**	1,112,340
Income/(loss) before income taxes	**(134,243)**	33,834	**(11,731)**	(132,385)
Provision/(benefit) for income taxes (three and nine months ended September 30, 2013, include $6.6 million and $8.7 million, respectively, of income tax benefit reclassified from accumulated other comprehensive income)	**(31,094)**	5,260	**1,644**	(72,348)
Income/(loss) from continuing operations	**(103,149)**	28,574	**(13,375)**	(60,037)
Income/(loss) from discontinued operations, net of tax (a)	**123**	108	**554**	160
Net income/(loss)	**$ (103,026)**	$ 28,682	**$ (12,821)**	$ (59,877)
Net income attributable to noncontrolling interest	**2,875**	2,875	**8,531**	8,563
Net income/(loss) attributable to controlling interest	**$ (105,901)**	$ 25,807	**$ (21,352)**	$ (68,440)
Preferred stock dividends	**1,550**		**4,288**	
Net income/(loss) available to common shareholders	**$ (107,451)**	$ 25,807	**$ (25,640)**	$ (68,440)
Basic earnings/(loss) per share from continuing operations (Note 9)	**$ (0.45)**	$ 0.10	**$ (0.11)**	$ (0.27)
Diluted earnings/(loss) per share from continuing operations (Note 9)	**$ (0.45)**	$ 0.10	**$ (0.11)**	$ (0.27)
Basic earnings/(loss) per share (Note 9)	**$ (0.45)**	$ 0.10	**$ (0.11)**	$ (0.27)
Diluted earnings/(loss) per share (Note 9)	**$ (0.45)**	$ 0.10	**$ (0.11)**	$ (0.27)
Weighted average common shares (Note 9)	**236,895**	246,628	**238,990**	249,742
Diluted average common shares (Note 9)	**236,895**	248,306	**238,990**	249,742

See accompanying notes to consolidated condensed financial statements.

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

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CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	First Horizon National Corporation			
	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands) (unaudited)	**2013**	2012	**2013**	2012
Net income/(loss)	**$ (103,026)**	$ 28,682	**$ (12,821)**	$ (59,877)
Other comprehensive income/(loss), net of tax:				
Unrealized fair value adjustments:				
Securities available-for-sale	**1,714**	243	**(44,097)**	(3,147)
Recognized pension and other employee benefit plans net periodic benefit costs	**10,560**	5,655	**14,049**	16,619
Other comprehensive income/(loss)	**12,274**	5,898	**(30,048)**	13,472
Comprehensive income/(loss)	**(90,752)**	34,580	**(42,869)**	(46,405)
Comprehensive income attributable to noncontrolling interest	**2,875**	2,875	**8,531**	8,563
Comprehensive income/(loss) attributable to controlling interest	**$ (93,627)**	$ 31,705	**$ (51,400)**	$ (54,968)

See accompanying notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

	First Horizon National Corporation					
	2013			2012		
(Dollars in thousands except per share data)(Unaudited)	Controlling Interest	Noncontrolling Interest	Total	Controlling Interest	Noncontrolling Interest	Total
Balance, January 1	**$ 2,214,041**	**$ 295,165**	**$ 2,509,206**	$ 2,389,472	$ 295,165	$ 2,684,637
Net income/(loss)	**(21,352)**	**8,531**	**(12,821)**	(68,440)	8,563	(59,877)
Other comprehensive income/(loss) (a)	**(30,048)**		**(30,048)**	13,472		13,472
Comprehensive income/(loss)	**(51,400)**	**8,531**	**(42,869)**	(54,968)	8,563	(46,405)
Preferred stock issuance (1,000 shares issued at $100,000 per share net of offering costs)	**95,624**		**95,624**			
Cash dividends declared:						
Preferred stock ($4,288.33 per share)	**(4,288)**		**(4,288)**			
Common stock ($.15 per share and $.03 per share for the nine months ended September 30, 2013 and 2012, respectively)	**(36,345)**		**(36,345)**	(7,464)		(7,464)
Common stock repurchased (b)	**(91,395)**		**(91,395)**	(98,902)		(98,902)
Common stock issued for:						
Stock options and restricted stock equity awards	**608**		**608**	133		133
Stock-based compensation expense	**12,452**		**12,452**	12,398		12,398
Dividends declared noncontrolling interest of subsidiary preferred stock		**(8,531)**	**(8,531)**		(8,563)	(8,563)
Tax benefit reversals stock-based compensation plans	**(1,509)**		**(1,509)**	(3,946)		(3,946)
Real estate investment trust (REIT) preferred stock issuance		**92**	**92**			
Acquired noncontrolling interest-REIT		**174**	**174**			
Other changes in equity	**74**		**74**			
Balance, September 30	**$ 2,137,862**	**$ 295,431**	**$ 2,433,293**	$ 2,236,723	$ 295,165	$ 2,531,888

See accompanying notes to consolidated condensed financial statements.

(a) Due to the nature of the preferred stock issued by FHN and its subsidiaries, all components of Other comprehensive income/(loss) have been attributed solely to FHN as the controlling interest holder.

(b) 2013 and 2012 include $87.6 million and $96.4 million, respectively, repurchased under the share repurchase program launched in fourth quarter 2011.

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Nine Months Ended September 30 **2013**	2012
Operating Activities		
Net income/(loss)	**$ (12,821)**	$ (59,877)
Adjustments to reconcile net income/(loss) to net cash provided/(used) by operating activities:		
Provision for loan losses	**40,000**	63,000
Provision/(benefit) for deferred income taxes	**(44,806)**	(83,807)
Depreciation and amortization of premises and equipment	**26,507**	26,320
Amortization of intangible assets	**2,784**	2,931
Net other amortization and accretion	**26,387**	59,161
Net (increase)/decrease in derivatives	**(7,858)**	(11,635)
Market value adjustment on mortgage servicing rights	**(20,267)**	4,541
Repurchase and foreclosure provision	**200,000**	299,256
Fair value adjustment to foreclosed real estate	**3,279**	7,873
Litigation and regulatory matters	**6,299**	29,013
(Gains)/losses on divestitures	**(638)**	(485)
Stock-based compensation expense	**12,452**	12,398
Tax benefit reversals stock-based compensation plans	**1,509**	3,946
Equity securities (gains)/losses, net	**(28)**	(5,065)
Debt securities (gains)/losses, net	**451**	(328)
Net (gain)/losses on sale/disposal of fixed assets	**1,050**	(2,432)
Net (increase)/decrease in:		
Trading securities	**(84,502)**	(223,064)
Loans held-for-sale	**30,297**	3,347
Capital markets receivables	**(113,850)**	(626,203)
Interest receivable	**890**	(6,256)
Other assets	**105,048**	211,339
Net increase/(decrease) in:		
Capital markets payables	**91,923**	409,493
Interest payable	**5,810**	12,684
Other liabilities	**(177,245)**	(183,396)
Trading liabilities	**21,540**	169,685
Total adjustments	**127,032**	172,316
Net cash provided/(used) by operating activities	**114,211**	112,439
Investing Activities		
Available-for-sale securities:		
Sales	**63,787**	47,493
Maturities	**783,033**	758,573
Purchases	**(977,723)**	(870,973)
Premises and equipment:		
Sales		6,845
Purchases	**(18,949)**	(14,826)
Net (increase)/decrease in:		
Loans	**1,461,678**	(291,042)
Interests retained from securitizations classified as trading securities	**4,088**	6,915
Interest-bearing cash	**196,178**	11,940
Cash receipts related to divestitures	**1,638**	5,278
Cash received for acquisition	**50,934**	
Net cash provided/(used) by investing activities	**1,564,664**	(339,797)

Financing Activities		
Common stock:		
Stock options exercised	**608**	133
Cash dividends paid	**(26,467)**	(7,604)
Repurchase of shares (a)	**(91,395)**	(98,902)
Tax benefit reversals stock-based compensation plans	**(1,509)**	(3,946)
Preferred stock issuance	**95,624**	
Cash dividends paid preferred stock noncontrolling interest	**(8,531)**	(8,531)
Cash dividends paid Series A preferred stock	**(2,738)**	
Term borrowings:		
Payments/maturities	**(411,027)**	(208,637)
Increases in restricted and secured term borrowings	**4,411**	5,622
Net increase/(decrease) in:		
Deposits	**(707,898)**	15,102
Short-term borrowings	**(611,399)**	591,532
Net cash provided/(used) by financing activities	**(1,760,321)**	284,769
Net increase/(decrease) in cash and cash equivalents	**(81,446)**	57,411
Cash and cash equivalents at beginning of period	**1,106,262**	828,255
Cash and cash equivalents at end of period	**$ 1,024,816**	$ 885,666
Supplemental Disclosures		
Total interest paid	**$ 65,750**	$ 71,535
Total taxes paid	**5,044**	34,560
Total taxes refunded	**26,035**	168,391
Transfer from loans to other real estate owned	**9,760**	25,986

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

See accompanying notes to consolidated condensed financial statements.

(a) 2013 and 2012 include $87.6 million and $96.4 million, respectively, repurchased under the share repurchase program launched in fourth quarter 2011.

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Notes to the Consolidated Condensed Financial Statements

Note 1 Financial Information

Basis of Accounting. The unaudited interim consolidated condensed financial statements of First Horizon National Corporation (FHN), including its subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States of America and follow general practices within the industries in which it operates. This preparation requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions are based on information available as of the date of the financial statements and could differ from actual results. In the opinion of management, all necessary adjustments have been made for a fair presentation of financial position and results of operations for the periods presented. These adjustments are of a normal recurring nature unless otherwise disclosed in this Quarterly Report on Form 10-Q. The operating results for the interim 2013 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 2012 Annual Report to shareholders.

Summary of Accounting Changes. Effective January 1, 2013, FHN adopted the provisions of FASB Accounting Standards Update (ASU) 2011-11, Balance Sheet: Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 creates new disclosure requirements about the nature of an entity s rights of setoff and related arrangements associated with its financial instruments and derivative instruments. ASU 2011-11 requires entities to disclose both gross and net information about both instruments and transactions eligible for offset in the balance sheet as well as instruments and transactions subject to an agreement similar to a master netting arrangement. The scope of ASU 2011-11 includes derivatives, sale and repurchase agreements/reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The provisions of ASU 2011-11 are effective for periods beginning on or after January 1, 2013, with retrospective application to all periods presented in the financial statements required. Additionally in January 2013, FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities , that narrowed the scope of ASU 2011-11. Based on this amendment, ASU 2011-11 applies to derivatives, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. Upon adoption of ASU 2011-11, FHN revised its disclosures accordingly. The adoption of the provisions of ASU 2011-11 had no effect on FHN s statement of condition, results of operations, or cash flows.

Effective January 1, 2013, FHN adopted the provisions of FASB ASU 2013-02, Comprehensive Income: Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. ASU 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in financial statements but modified interim disclosure requirements such that changes in accumulated other comprehensive income must be disclosed in interim filings. The provisions of ASU 2013-02 are effective for periods beginning after December 15, 2012, with prospective application to transactions or modifications of existing transactions that occur on or after the effective date. Upon adoption of the provisions of ASU 2013-02 on January 1, 2013, FHN revised its financial statements and disclosures accordingly.

Accounting Changes Issued but Not Currently Effective. In July 2013, the FASB issued ASU 2013-11, Income Taxes: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Generally, ASU 2013-11 requires that an unrecognized tax benefit should reduce a deferred tax asset (DTA) that has been established for a net operating loss (NOL), a tax credit carryforward, or other similar tax losses. However, if a filer does not have such carryforwards or similar tax losses at the reporting date, the uncertain tax position should be recorded as a liability. If a filer does have a DTA, but is not required by tax law of the applicable jurisdiction to use the DTA to settle additional taxes from the disallowance of a tax position and that is the filers intent, the uncertain tax position should be recognized as a liability in that situation as well and not netted with the DTA. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The provisions of ASU 2013-11 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The provisions of ASU 2013-11 should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. FHN does not expect the adoption of the provisions of ASU 2013-11 to have a material effect on FHN s statement of condition, results of operations, or cash flows.

In July 2013, the FASB issued ASU 2013-10, Derivatives and Hedging: Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. ASU 2013-10 provides guidance on the risks that are permitted to be hedged in a fair value or cash flow hedge. The provisions of ASU 2013-10 permit the Fed Funds Effective Swap Rate (or Overnight Index Swap

Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes under ASC 815, in addition to U.S. Treasury rates and London Interbank Offered Rate (LIBOR). The amendments also remove the restriction on using different benchmark rates for similar hedges. The provisions of ASU 2013-10 are effective prospectively for qualifying new or re-designated hedging relationships entered into on or after July 17, 2013. FHN may apply the provisions of ASU 2013-10 to future hedging relationships.

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Note 2 Acquisitions and Divestitures

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

Excluding purchase accounting adjustments, FHN acquired approximately $452 million in assets, including approximately $249 million in loans, and assumed approximately $362 million of MNB deposits. There was no premium associated with the acquired deposits and assets were acquired at a discount of $33 million from book value. FHN did not enter into a loss-sharing agreement with the FDIC associated with the MNB purchase.

FHN has accounted for the acquisition as a business combination in accordance with ASC 805, Business Combinations, which requires acquired assets and liabilities (other than tax balances) to be recorded at fair value. Generally, the fair value for the acquired loans was estimated using a discounted cash flow analysis with significant unobservable inputs (Level 3) including adjustments for expected credit losses, prepayment speeds, current market rates for similar loans, and an adjustment for investor-required yield given product-type and various risk characteristics (refer to Note 4 Loans for additional information).

FHN continues to analyze the estimates of the fair value of the assets acquired and liabilities assumed, and as such the amounts recorded are provisional. FHN believes that information provides a reasonable basis for estimating fair values. FHN expects to substantially complete the purchase price allocation by the end of 2013; however, the fair value estimates are subject to refinement for up to one year after the closing date of the acquisition as additional information relative to closing date fair values becomes available. In addition, the tax treatment is complex and subject to interpretations that may result in future adjustments of deferred taxes as of the acquisition date.

In accordance with applicable accounting guidance, all measurement period adjustments related to acquisitions are presented in the acquired balance at closing, with revision of previously reported amounts.

The following schedule details significant assets acquired and liabilities assumed from the FDIC for MNB and provisional estimated purchase accounting/fair value adjustments at June 7:

	Mountain National Bank		
(Dollars in thousands)	Acquired from FDIC	Purchase Accounting/ Fair Value Adjustments	As recorded by FHN
Assets:			
Cash and cash equivalents	$ 54,872	$	$ 54,872
Interest-bearing cash	26,984		26,984
Securities available-for-sale	73,948	(240)	73,708
Loans, net of unearned income	249,001	(33,094)	215,907
Core deposit intangible		2,300	2,300
Premises and equipment	10,359	3,755	14,114
Real estate acquired by foreclosure	33,294	(10,930)	22,364
Deferred tax asset	(286)	2,677	2,391
Other assets	3,405		3,405
Total assets acquired	$ 451,577	$ (35,532)	$ 416,045
Liabilities:			
Deposits	$ 362,098	$	$ 362,098
Securities sold under agreements to repurchase	1,930		1,930
Federal Home Loan Bank advances	50,040	5,586	55,626
Other liabilities	2,454		2,454

Total liabilities assumed	416,522	5,586	422,108
Acquired noncontrolling interest	117	57	174
Total liabilities assumed and acquired noncontrolling interest	$ 416,639	$ 5,643	$ 422,282
Excess of assets acquired over liabilities assumed	$ 34,938		
Aggregate purchase accounting/fair value adjustments		$ (41,175)	
Goodwill			$ 6,237

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Note 2 Acquisitions and Divestitures (Continued)

In relation to the acquisition FHN recorded $6.2 million in goodwill, representing the excess of the estimated fair values of liabilities assumed over the estimated fair value of the assets acquired (refer to Note 6 Intangible Assets for additional information). Of this amount, $3.5 million is expected to be deductible for tax purposes.

FHN s operating results for the quarter ended September 30, 2013, include the operating results of the acquired assets and assumed liabilities of MNB subsequent to the acquisition on June 7, 2013.

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

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Note 3 Investment Securities

The following tables summarize FHN s available-for-sale (AFS) securities on September 30, 2013 and 2012:

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

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

(Dollars in thousands)	September 30, 2012 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. treasuries	$ 54,995	$ 1	$	$ 54,996
Government agency issued MBS	1,191,811	79,639		1,271,450
Government agency issued CMO	1,530,075	25,562	(896)	1,554,741
Other U.S. government agencies	3,911	291		4,202
States and municipalities	17,970			17,970
Equity and other (a)	220,247	23		220,270
Total securities available for sale (b)	$ 3,019,009	$ 105,516	$ (896)	$ 3,123,629

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

(a) Includes restricted investments in FHLB-Cincinnati stock of $125.5 million and FRB stock of $66.0 million. The remainder is money market, venture capital, and cost method investments.
(b) Includes $2.8 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.

National banks chartered by the federal government are, by law, members of the Federal Reserve System. Each member bank is required to own stock in its regional Federal Reserve Bank (FRB). Given this requirement, FRB stock may not be sold, traded, or pledged as collateral for loans. Membership in the Federal Home Loan Bank (FHLB) network requires ownership of capital stock. Member banks are entitled to borrow funds from the FHLB and are required to pledge mortgage loans as collateral. Investments in the FHLB are non-transferable and, generally, membership is maintained primarily to provide a source of liquidity as needed.

The amortized cost and fair value by contractual maturity for the available-for-sale securities portfolio on September 30, 2013, are provided below:

(Dollars in thousands)	Available-for-Sale Amortized Cost	Fair Value
Within 1 year	$ 39,993	$ 39,996
After 1 year; within 5 years	3,881	4,028
After 5 years; within 10 years		
After 10 years	13,655	13,655
Subtotal	57,529	57,679
Government agency issued MBS and CMO	2,881,880	2,900,572
Equity and other	228,709	228,692
Total	**$ 3,168,118**	**$ 3,186,943**

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

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Note 3 Investment Securities (Continued)

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

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	**2013**	2012	**2013**	2012
Gross gains on sales of securities	**$ 728**	$	**$ 770**	$ 5,433
Gross losses on sales of securities	**(824)**		**(1,193)**	
Net gain/(loss) on sales of securities (a)	**(96)**		**(423)**	5,433
Net other than temporary impairment (OTTI) recorded				(40)
Total securities gain/(loss), net	**$ (96)**	$	**$ (423)**	$ 5,393

(a) Proceeds for the three and nine months ended September 30, 2013, were $44.9 million and $63.8 million, respectively. There were no proceeds from sales for the three months ended September 30, 2012; proceeds from sales for the nine months ended September 30, 2012 were $47.5 million.

The following tables provide information on investments within the available-for-sale portfolio that had unrealized losses on September 30, 2013 and 2012:

	On September 30, 2013					
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government agency issued CMO	$ 1,241,836	$ (36,025)	$ 12,018	$ (77)	$ 1,253,854	$ (36,102)
Government agency issued MBS	154,299	(3,570)			154,299	(3,570)
Total debt securities	1,396,135	(39,595)	12,018	(77)	1,408,153	(39,672)
Equity	43	(17)			43	(17)
Total temporarily impaired securities	**$ 1,396,178**	**$ (39,612)**	**$ 12,018**	**$ (77)**	**$ 1,408,196**	**$ (39,689)**

	On September 30, 2012					
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government agency issued CMO	$ 205,205	$ (896)	$	$	$ 205,205	$ (896)
Total temporarily impaired securities	$ 205,205	$ (896)	$	$	$ 205,205	$ (896)

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

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Note 4 Loans

The following table provides the balance of loans by portfolio segment as of September 30, 2013 and 2012, and December 31, 2012:

(Dollars in thousands)	September 30 **2013**	September 30 2012	December 31 2012
Commercial:			
Commercial, financial, and industrial	**$ 7,746,942**	$ 8,466,450	$ 8,796,956
Commercial real estate	**1,173,711**	1,229,855	1,168,235
Retail:			
Consumer real estate (a)	**5,458,047**	5,735,904	5,688,703
Permanent mortgage (b)	**697,694**	805,511	765,583
Credit card & other	**332,162**	286,063	289,105
Loans, net of unearned income	**$ 15,408,556**	$ 16,523,783	$ 16,708,582
Allowance for loan losses	**255,710**	281,744	276,963
Total net loans	**$ 15,152,846**	$ 16,242,039	$ 16,431,619

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

(a) Balances as of September 30, 2013 and 2012, and December 31, 2012 include $349.3 million, $417.0 million and $402.4 million of restricted and secured real estate loans, respectively. See Note 14 Variable Interest Entities for additional information.

(b) Balances as of September 30, 2013 and 2012, and December 31, 2012 include $11.7 million, $14.2 million and $13.2 million of restricted and secured real estate loans, respectively. See Note 14 Variable Interest Entities for additional information.

Components of the Loan Portfolio

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

Acquisition

On June 7, 2013, FHN acquired substantially all of the assets and liabilities of MNB from the FDIC. The acquisition included approximately $249 million of loans. These loans are recorded at fair value which incorporates expected credit losses in accordance with ASC 805 resulting in no carryover of allowance for loan loss from the acquiree. See Note 2 Acquisitions and Divestitures for additional information regarding the acquisition. At acquisition, FHN designated certain loans as purchase credit impaired (see discussion below) with the remaining loans accounted for under ASC 310-20, Nonrefundable Fees and Other Costs . For loans accounted for under ASC 310-20, the difference between the loans book value to MNB and the estimated fair value at the time of the acquisition will be accreted back into interest income over the remaining contractual life and the subsequent accounting and reporting will be similar to FHN s originated loan portfolio.

Purchase Credit Impaired Loans

ASC 310-30 Accounting for Certain Loans or Debt Securities Acquired in a Transfer , provides guidance for acquired loans that have experienced deterioration of credit quality between origination and the time of acquisition and for which the timely collection of the interest and principal is no longer reasonably assured (PCI loans). PCI loans are initially recorded at fair value which was estimated by discounting expected cash flows at acquisition date. The expected cash flows includes all contractually expected amounts (including interest) and incorporates an estimate for future expected credit losses, pre-payment assumptions, and yield requirement for a market participant, among other things. To the extent possible, certain PCI loans were aggregated with composite interest rate and expectation of cash flows expected to be collected for the pool. Aggregation into loan pools is based on common risk characteristics that include similar credit risk or risk ratings, and one or more predominant risk characteristics. PCI pools are accounted for as a single unit.

Accretable yield is the excess of cash flows expected at acquisition over the initial investment in the loan and is recognized in interest income over the remaining life of the loan, or pool of loans. Nonaccretable difference is the difference between the contractually required payments at acquisition and the cash flows expected to be collected at acquisition. In quarters subsequent to the acquisition

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Note 4 Loans (Continued)

date, FHN re-estimates expected cash flows for PCI loans. Increases in expected cash flows from the last measurement will result in reversal of any nonaccretable difference (or allowance for loan losses to the extent any has been recorded) with a prospective positive impact on interest income. Decreases to the expected cash flows will result in an increase in the allowance for loan losses through increased provision expense. Generally, PCI loans will not be reported as nonperforming loans, troubled debt restructurings (if pooled), or impaired loans unless there has been an other-than-temporary decline in the fair value of a loan below amortized cost or if it is probable that a loan has become impaired in periods subsequent to the acquisition.

The following table reflects FHN s contractually required payments receivable, cash flows expected to be collected, and the fair value of purchase credit impaired (PCI) loans at the acquisition date of June 7, 2013. The table has been revised from second quarter 2013 as the PCI population was finalized in third quarter 2013.

(Dollars in thousands)	June 7, 2013
Contractually required payments including interest	$ 79,676
Less: nonaccretable difference	(23,750)
Cash flows expected to be collected	55,926
Less: accretable yield	(6,650)
Fair value of loans acquired	**$ 49,276**

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

(Dollars in thousands)	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Balance, beginning of period	$ 6,432	$
Impact of acquisition/purchase on June 7, 2013		6,650
Accretion	(821)	(1,039)
Adjustment for payoffs	(15)	(15)
Balance, end of period	**$ 5,596**	**$ 5,596**

At September 30, 2013, there were no additions to the allowance for loan losses or adjustments to the nonaccretable difference. The following table reflects the outstanding principal balance and carrying amounts of the acquired PCI loans as of September 30, 2013:

	September 30, 2013	
(Dollars in thousands)	Ending balance	Unpaid balance
Commercial, financial and industrial	$ 2,410	$ 2,758
Commercial real estate	45,443	63,061
Consumer real estate	894	1,309
Credit card and other	17	24
Total	$ 48,764	$ 67,152

Concentrations

FHN has a concentration of loans secured by residential real estate (40 percent of total loans), the majority of which is in the consumer real estate portfolio (35 percent of total loans). Loans to finance and insurance companies total $1.6 billion (21 percent of the C&I portfolio, or 10 percent of the total loans). FHN had loans to mortgage companies totaling $0.7 billion (9 percent of the C&I portfolio, or 5 percent of total loans) as of September 30, 2013. As a result, 30 percent of the C&I category was sensitive to impacts on the financial services industry.

Regulatory Focus on Consumer Loan Accounting and Reporting

In first quarter 2012, the Office of the Comptroller of Currency (OCC) issued interagency guidance related to ALLL estimation and nonaccrual practices, and risk management policies for junior lien loans. As a result, FHN modified its nonaccrual policies in first quarter 2012, to place current second liens on nonaccrual if the first lien is owned or serviced by FHN and is 90 or more days past due. For non FHN-serviced first liens, in second quarter 2013, FHN received information from a third party vendor regarding the performance status of those first liens and placed stand-alone second liens on nonaccrual if the first lien was 90 days or more past due or had been modified. Because probable incurred losses had been contemplated in the allowance for loan loss estimate in prior quarters, this new information did not result in a significant increase in the ALLL.

In third quarter 2012, the OCC clarified that residential real estate loans in which personal liability has been discharged through Chapter 7 bankruptcy and not reaffirmed by the borrower are collateral dependent and should be reported as nonaccruing troubled debt restructuring (TDR). As a result, FHN charged-down such loans to the net realizable value of the collateral and the remaining balances were reported as nonaccruing TDRs regardless of the loan s delinquency status. With the implementation of this guidance, provision expense increased by approximately $30 million and net charge-offs increased by $40.0 million in third quarter 2012.

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Note 4 Loans (Continued)

Because of the composition of FHN s residential real estate portfolios, these changes most significantly impacted the consumer real estate portfolio segment. The level of nonperforming loans and TDRs in the consumer real estate and permanent mortgage portfolios was affected by the regulatory actions discussed above.

Allowance for Loan Losses

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

Commercial

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

Retail

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

Individually Impaired

Generally, classified nonaccrual commercial loans over $1 million and all commercial and consumer loans classified as TDRs are deemed to be impaired and are individually assessed for impairment measurement in accordance with ASC 310-10-35. PCI loans are not considered impaired loans unless there are declines in fair value in reporting periods subsequent to the acquisition date. For all commercial portfolio segments, commercial TDRs and other individually impaired commercial loans are measured based on the present value of expected future payments discounted at the loan s effective interest rate (the DCF method), observable market prices, or for loans that are solely dependent on the collateral for repayment, the net realizable value. For loans measured using the DCF method or by observable market prices, if the recorded investment in the impaired loan exceeds this amount, a specific allowance is established as a component of the ALLL until such time as a loss is expected and recognized; for impaired collateral-dependent loans, FHN will charge off the full difference between the book value and the best estimate of net realizable value.

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

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Note 4 Loans (Continued)

The following table provides a rollforward of the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2013 and 2012:

(Dollars in thousands)	C&I	Commercial Real Estate	Consumer Real Estate	Permanent Mortgage	Credit Card and Other	Total
Balance as of July 1, 2012	$ 110,645	$ 41,546	$ 133,421	$ 29,112	$ 6,327	$ 321,051
Charge-offs	(7,077)	(4,446)	(69,351)	(2,889)	(3,259)	(87,022)
Recoveries	1,892	1,240	2,941	734	908	7,715
Provision	1,081	(10,991)	48,938	(1,400)	2,372	40,000
Balance as of September 30, 2012	106,541	27,349	115,949	25,557	6,348	281,744
Balance as of January 1, 2012	130,413	55,586	165,077	26,194	7,081	384,351
Charge-offs	(23,310)	(18,070)	(132,618)	(10,597)	(9,238)	(193,833)
Recoveries	8,568	2,779	12,255	1,905	2,719	28,226
Provision	(9,130)	(12,946)	71,235	8,055	5,786	63,000
Balance as of September 30, 2012	106,541	27,349	115,949	25,557	6,348	281,744
Allowance individually evaluated for impairment	28,672	183	31,629	20,988	237	81,709
Allowance collectively evaluated for impairment	77,869	27,166	84,320	4,569	6,111	200,035
Loans, net of unearned as of September 30, 2012:						
Individually evaluated for impairment	153,480	66,357	145,481	129,101	913	495,332
Collectively evaluated for impairment	8,312,970	1,163,498	5,590,423	676,410	285,150	16,028,451
Total loans, net of unearned	8,466,450	1,229,855	5,735,904	805,511	286,063	16,523,783
Balance as of July 1, 2013	**93,502**	**13,931**	**120,848**	**27,103**	**6,550**	**261,934**
Charge-offs	**(4,869)**	**(515)**	**(16,412)**	**(1,366)**	**(2,884)**	**(26,046)**
Recoveries	**3,242**	**587**	**4,398**	**841**	**754**	**9,822**
Provision	**(495)**	**(3,010)**	**11,992**	**(1,022)**	**2,535**	**10,000**
Balance as of September 30, 2013	**91,380**	**10,993**	**120,826**	**25,556**	**6,955**	**255,710**
Balance as of January 1, 2013	**96,191**	**19,997**	**128,949**	**24,928**	**6,898**	**276,963**
Charge-offs	**(16,201)**	**(2,612)**	**(58,792)**	**(6,577)**	**(8,236)**	**(92,418)**
Recoveries	**9,839**	**2,703**	**14,932**	**1,609**	**2,082**	**31,165**
Provision	**1,551**	**(9,095)**	**35,737**	**5,596**	**6,211**	**40,000**
Balance as of September 30, 2013	**91,380**	**10,993**	**120,826**	**25,556**	**6,955**	**255,710**
Allowance individually evaluated for impairment	**15,702**	**1,581**	**38,426**	**18,646**	**212**	**74,567**
Allowance collectively evaluated for impairment	**75,678**	**9,412**	**82,400**	**6,910**	**6,743**	**181,143**
Loans, net of unearned as of September 30, 2013:						
Individually evaluated for impairment	**102,729**	**30,266**	**170,401**	**144,036**	**648**	**448,080**
Collectively evaluated for impairment	**7,641,803**	**1,098,002**	**5,286,752**	**553,658**	**331,497**	**14,911,712**
Purchased credit impaired loans	**2,410**	**45,443**	**894**		**17**	**48,764**

Total loans, net of unearned	**$ 7,746,942**	**$ 1,173,711**	**$ 5,458,047**	**$ 697,694**	**$ 332,162**	**$ 15,408,556**

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Note 4 Loans (Continued)

Impaired Loans

The following tables provide information at September 30, 2013 and 2012, by class related to individually impaired loans and consumer TDR s. Recorded investment is defined as the amount of the investment in a loan, before valuation allowance but which does reflect any direct write-down of the investment. For purposes of this disclosure, PCI loans and LOCOM have been excluded.

	At September 30, 2013			Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:							
Commercial:							
General C&I	$ 34,193	$ 43,677	$	$ 40,812	$	$ 51,845	$ 108
TRUPs	6,500	6,500		6,500		10,583	
Income CRE	12,939	24,219		17,959		24,828	168
Residential CRE		182		5,483		10,860	122
Total	$ 53,632	$ 74,578	$	$ 70,754	$	$ 98,116	$ 398
Retail:							
HELOC (a)	$ 18,323	$ 40,867	$	$ 19,016	$	$ 20,032	$
R/E installment loans (a)	11,632	15,102		11,913		12,166	
Permanent mortgage (a)	14,531	14,531		14,663		14,168	
Total	$ 44,486	$ 70,500	$	$ 45,592	$	$ 46,366	$
Impaired loans with related allowance recorded:							
Commercial:							
General C&I	$ 31,672	$ 38,075	$ 2,447	$ 27,944	$ 71	$ 16,319	$ 108
TRUPs	33,610	33,610	13,255	38,655		39,185	
Income CRE	10,274	11,330	765	7,552	70	3,859	96
Residential CRE	7,053	12,383	816	4,567	68	1,869	84
Total	$ 82,609	$ 95,398	$ 17,283	$ 78,718	$ 209	$ 61,232	$ 288
Retail:							
HELOC	$ 68,903	$ 71,708	$ 15,702	$ 68,287	$ 483	$ 65,005	$ 1,373
R/E installment loans	71,543	72,686	22,724	75,084	336	72,571	1,025
Permanent mortgage	129,505	129,702	18,646	127,187	776	124,421	2,164
Credit card & other	648	648	212	682	7	732	23
Total	$ 270,599	$ 274,744	$ 57,284	$ 271,240	$ 1,602	$ 262,729	$ 4,585
Total commercial	$ 136,241	$ 169,976	$ 17,283	$ 149,472	$ 209	$ 159,348	$ 686
Total retail	$ 315,085	$ 345,244	$ 57,284	$ 316,832	$ 1,602	$ 309,095	$ 4,585

Total impaired loans	$ 451,326	$ 515,220	$ 74,567	$ 466,304	$ 1,811	$ 468,443	$ 5,271

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

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Note 4 Loans (Continued)

(Dollars in thousands)	September 30, 2012 Recorded Investment	September 30, 2012 Unpaid Principal Balance	September 30, 2012 Related Allowance	Three Months Ended September 30, 2012 Average Recorded Investment	Three Months Ended September 30, 2012 Interest Income Recognized	Nine Months Ended September 30, 2012 Average Recorded Investment	Nine Months Ended September 30, 2012 Interest Income Recognized
Impaired loans with no related allowance recorded:							
Commercial:							
General C&I	$ 59,215	$ 75,587	$	$ 60,669	$ 142	$ 67,098	$ 549
TRUPs	45,892	45,892		46,446		46,446	
Income CRE	44,956	69,684		48,166	96	56,305	249
Residential CRE	19,993	36,108		21,167	70	22,142	204
Total	$ 170,056	$ 227,271	$	$ 176,448	$ 308	$ 191,991	$ 1,002
Retail:							
HELOC (a)	$ 13,086	$ 40,222	$	$ 142	$	$ 48	$
R/E installment loans (a)	8,696	24,263		95		32	
Permanent mortgage (a)	13,282	17,040		144		48	
Total	$ 35,064	$ 81,525	$	$ 381	$	$ 128	$
Impaired loans with related allowance recorded:							
Commercial:							
General C&I	$ 20,580	$ 22,374	$ 7,351	$ 19,764	$ 33	$ 17,512	$ 100
TRUPs	33,700	33,700	21,321	33,700		33,700	
Income CRE	1,408	1,408	183	1,469	14	1,815	43
Residential CRE				8,700		10,577	
Total	$ 55,688	$ 57,482	$ 28,855	$ 63,633	$ 47	$ 63,604	$ 143
Retail:							
HELOC	$ 57,020	$ 57,422	$ 12,980	$ 57,097	$ 389	$ 53,469	$ 1,173
R/E installment loans	66,679	67,053	18,649	67,272	294	68,444	835
Permanent mortgage	115,819	115,880	20,988	117,679	714	94,442	2,104
Credit card & other	913	913	237	923	2	1,015	23
Total	$ 240,431	$ 241,268	$ 52,854	$ 242,971	$ 1,399	$ 217,370	$ 4,135
Total commercial	$ 225,744	$ 284,753	$ 28,855	$ 240,081	$ 355	$ 255,595	$ 1,145
Total retail	$ 275,495	$ 322,793	$ 52,854	$ 243,352	$ 1,399	$ 217,498	$ 4,135
Total impaired loans	$ 501,239	$ 607,546	$ 81,709	$ 483,433	$ 1,754	$ 473,093	$ 5,280

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

Asset Quality Indicators

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

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Note 4 Loans (Continued)

The following tables provide the balances of commercial loan portfolio classes with associated allowance, disaggregated by PD grade as of September 30, 2013 and 2012:

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

	September 30, 2012							
(Dollars in thousands)	General C&I	Loans to Mortgage Companies	TRUPS (a)	Income CRE	Residential CRE	Total	Percent of Total	Allowance for Loan Losses
PD Grade:								
1	$ 213,872	$	$	$	$	$ 213,872	2%	$ 54
2	183,044			2,557		185,601	2	93
3	129,183			8,210		137,393	1	79
4	255,875			5,660	26	261,561	3	226
5	500,389			28,115	117	528,621	6	1,027
6	899,007	129,816		166,183	5,024	1,200,030	12	3,002
7	997,337	327,812		156,309	4,056	1,485,514	15	7,868
8	936,437	959,623		172,200	515	2,068,775	21	12,028
9	651,137	186,130		172,544	1,375	1,011,186	10	10,084
10	508,520	33,302		96,892	1,336	640,050	7	8,103
11	462,654			84,635	2,024	549,313	6	9,112
12	175,688			11,848	1,278	188,814	2	2,709
13	154,787		338,177	75,408	3,705	572,077	6	9,211
14,15,16	270,180			133,941	29,540	433,661	5	41,439

Collectively evaluated for impairment	6,338,110	1,636,683	338,177	1,114,502	48,996	9,476,468	98	105,035
Individually evaluated for impairment	79,795		73,685	46,364	19,993	219,837	2	28,855
Total commercial loans	$ 6,417,905	$ 1,636,683	$ 411,862	$ 1,160,866	$ 68,989	$ 9,696,305	100%	$ 133,890

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

(a) Balances as of September 30, 2013 and 2012, presented net of $29.4 million and $34.2 million, respectively, in lower of cost or market (LOCOM) valuation allowance. Based on the underlying structure of the notes, the highest possible internal grade is 13 .

(b) Balance as of September 30, 2013, excludes PCI loans amounting to $47.9 million.

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

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Note 4 Loans (Continued)

The following tables reflect period-end balances and average FICO scores by origination vintage for the HELOC, real estate installment, and permanent mortgage classes of loans as of September 30, 2013 and 2012:

HELOC *(Dollars in thousands)*	**September 30, 2013**			September 30, 2012		
Origination Vintage	**Period End Balance**	**Average Origination FICO**	**Average Refreshed FICO**	Period End Balance	Average Origination FICO	Average Refreshed FICO
pre-2003	**$ 88,416**	**711**	**702**	$ 135,605	718	710
2003	**163,576**	**728**	**714**	235,546	733	724
2004	**421,542**	**727**	**717**	514,791	728	718
2005	**548,756**	**733**	**720**	642,027	734	719
2006	**400,023**	**741**	**725**	474,706	741	726
2007	**421,964**	**744**	**728**	498,011	745	729
2008	**233,642**	**754**	**747**	267,346	755	748
2009	**121,555**	**750**	**744**	152,687	753	748
2010	**120,022**	**753**	**750**	150,243	754	752
2011	**119,553**	**758**	**754**	146,768	759	758
2012	**145,507**	**759**	**759**	117,905	761	759
2013	**111,976**	**762**	**761**			
Total	**$ 2,896,532**	**741**	**730**	$ 3,335,635	740	731

R/E Installment Loans *(Dollars in thousands)*	**September 30, 2013**			September 30, 2012		
Origination Vintage	**Period End Balance**	**Average Origination FICO**	**Average Refreshed FICO**	Period End Balance	Average Origination FICO	Average Refreshed FICO
pre-2003	**$ 26,603**	**682**	**684**	$ 41,783	686	686
2003	**81,915**	**716**	**725**	122,330	721	730
2004	**58,244**	**701**	**699**	78,439	707	706
2005	**170,742**	**717**	**711**	224,780	718	713
2006	**183,847**	**716**	**701**	244,101	719	703
2007	**264,851**	**725**	**709**	338,306	728	711
2008	**91,883**	**723**	**720**	122,014	728	720
2009	**39,549**	**742**	**736**	67,590	748	744
2010	**131,004**	**747**	**754**	163,618	745	751
2011	**347,315**	**761**	**761**	428,167	760	759
2012	**707,972**	**764**	**764**	569,141	765	761
2013	**457,590**	**758**	**754**			
Total	**$ 2,561,515**	**746**	**742**	$ 2,400,269	741	733

Permanent Mortgage *(Dollars in thousands)*	**September 30, 2013**			September 30, 2012		
Origination Vintage	**Period End Balance**	**Average Origination FICO**	**Average Refreshed FICO**	Period End Balance	Average Origination FICO	Average Refreshed FICO
pre-2004	**$ 205,111**	**725**	**725**	$ 220,499	726	729

2004	**24,595**	**712**	**693**	31,422	715	692
2005	**41,643**	**738**	**712**	52,058	739	716
2006	**81,932**	**731**	**711**	94,898	734	706
2007	**236,819**	**733**	**710**	275,594	734	711
2008	**107,594**	**741**	**714**	131,040	742	712
Total	**$ 697,694**	**731**	**713**	$ 805,511	732	712

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Note 4 Loans (Continued)

The following table reflects accruing delinquency amounts for the credit card and other portfolio classes as of September 30:

(Dollars in thousands)	Credit Card **2013**	Credit Card 2012	Other **2013**	Other 2012
Accruing delinquent balances:				
30-89 days past due	**$ 1,480**	$ 1,666	**$ 803**	$ 594
90+ days past due	**1,258**	1,352	**138**	477
Total	**$ 2,738**	$ 3,018	**$ 941**	$ 1,071

Nonaccrual and Past Due Loans

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

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

	Accruing				Non-Accruing				
(Dollars in thousands)	**Current**	**30-89 Days Past Due**	**90+ Days Past Due**	**Total Accruing**	**Current**	**30-89 Days Past Due**	**90+ Days Past Due**	**Total Non-Accruing**	**Total Loans**
Commercial (C&I):									
General C&I	$ 6,565,838	$ 7,314	$ 247	**$ 6,573,399**	$ 33,582	$ 3,610	$ 28,334	**$ 65,526**	**$ 6,638,925**
Loans to mortgage companies	731,684	682		**732,366**			335	**335**	**732,701**
TRUPs (a)	336,042			**336,042**			36,864	**36,864**	**372,906**
Purchased credit impaired loans	1,942	468		**2,410**					**2,410**
Total commercial (C&I)	7,635,506	8,464	247	**7,644,217**	33,582	3,610	65,533	**102,725**	**7,746,942**
Commercial real estate:									
Income CRE	1,063,940	5,438	283	**1,069,661**	6,791		13,802	**20,593**	**1,090,254**
Residential CRE	33,442	177		**33,619**	285		4,110	**4,395**	**38,014**
Purchased credit impaired loans	44,241	637	565	**45,443**					**45,443**
Total commercial real estate	1,141,623	6,252	848	**1,148,723**	7,076		17,912	**24,988**	**1,173,711**

Consumer real estate:									
HELOC	2,778,336	24,072	12,641	**2,815,049**	61,733	5,521	14,229	**81,483**	**2,896,532**
R/E installment loans	2,499,516	14,156	6,475	**2,520,147**	29,549	3,048	7,877	**40,474**	**2,560,621**
Purchased credit impaired loans	894			**894**					**894**
Total consumer real estate	5,278,746	38,228	19,116	**5,336,090**	91,282	8,569	22,106	**121,957**	**5,458,047**
Permanent mortgage	643,385	5,097	12,239	**660,721**	13,518	1,321	22,134	**36,973**	**697,694**
Credit card & other									
Credit card	186,749	1,480	1,258	**189,487**					**189,487**
Other	140,318	803	138	**141,259**	1,399			**1,399**	**142,658**
Purchased credit impaired loans	17			**17**					**17**
Total credit card & other	327,084	2,283	1,396	**330,763**	1,399			**1,399**	**332,162**
Total loans, net of unearned	$ 15,026,344	$ 60,324	$ 33,846	**$ 15,120,514**	$ 146,857	$ 13,500	$ 127,685	**$ 288,042**	**$ 15,408,556**

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

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Note 4 Loans (Continued)

The following table reflects accruing and non-accruing loans by class on September 30, 2012:

	Accruing				Non-Accruing				
(Dollars in thousands)	Current	30-89 Days Past Due	90+ Days Past Due	Total Accruing	Current	30-89 Days Past Due	90+ Days Past Due	Total Non-Accruing	Total Loans
Commercial (C&I):									
General C&I	$ 6,315,340	$ 25,221	$ 428	**$ 6,340,989**	$ 36,480	$ 9,734	$ 30,702	**$ 76,916**	**$ 6,417,905**
Loans to mortgage companies	1,636,683			**1,636,683**					**1,636,683**
TRUPs (a)	338,177			**338,177**			73,685	**73,685**	**411,862**
Total commercial (C&I)	8,290,200	25,221	428	**8,315,849**	36,480	9,734	104,387	**150,601**	**8,466,450**
Commercial real estate:									
Income CRE	1,111,616	2,393		**1,114,009**	10,552	3,689	32,616	**46,857**	**1,160,866**
Residential CRE	51,288	823		**52,111**	1,654	126	15,098	**16,878**	**68,989**
Total commercial real estate	1,162,904	3,216		**1,166,120**	12,206	3,815	47,714	**63,735**	**1,229,855**
Consumer real estate:									
HELOC	3,246,585	36,223	18,774	**3,301,582**	20,990	1,195	11,868	**34,053**	**3,335,635**
R/E installment loans	2,350,465	18,332	10,185	**2,378,982**	12,954	2,470	5,863	**21,287**	**2,400,269**
Total consumer real estate	5,597,050	54,555	28,959	**5,680,564**	33,944	3,665	17,731	**55,340**	**5,735,904**
Permanent mortgage	748,470	15,241	7,774	**771,485**	18,165	2,095	13,766	**34,026**	**805,511**
Credit card & other									
Credit card	183,893	1,666	1,352	**186,911**					**186,911**
Other	96,245	594	477	**97,316**	1,835	1		**1,836**	**99,152**
Total credit card & other	280,138	2,260	1,829	**284,227**	1,835	1		**1,836**	**286,063**
Total loans, net of unearned	$ 16,078,762	$ 100,493	$ 38,990	**$ 16,218,245**	$ 102,630	$ 19,310	$ 183,598	**$ 305,538**	**$ 16,523,783**

(a) Total TRUPs includes LOCOM valuation allowance of $34.2 million.

Troubled Debt Restructurings

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

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

For all classes within the commercial portfolio segment, TDRs are typically modified through forbearance agreements (generally 6 to 12 months). Forbearance agreements could include reduced interest rates, reduced payments, release of guarantor in exchange for payment, or entering into short sale agreements. FHN s proprietary modification programs for consumer loans are generally structured using parameters of U.S. government-sponsored programs such as Home Affordable Modification Program (HAMP). Within the HELOC and R/E installment loans classes of the consumer portfolio segment, TDRs are typically modified by reducing the interest rate (in increments of 25 basis points to a minimum of 1 percent for up to 5 years) and a possible maturity date extension to reach an affordable housing debt ratio. Permanent mortgage TDRs are typically modified by reducing the interest rate (in increments of 25 basis points to a minimum of 2 percent for up to 5 years) and a possible maturity date extension to reach an affordable housing debt ratio. After 5 years the interest rate steps up 1 percent every year thereafter until it reaches the Federal Home Loan Mortgage Corporation (Freddie Mac, Freddie, or FHLMC) Weekly Survey Rate cap. Contractual maturities may be extended to 40 years on permanent mortgages and to 30 years for consumer real estate loans. Within the credit card class of the consumer portfolio segment, TDRs are typically modified through either a short-term credit card hardship program or a longer-term credit card workout program. In the credit card hardship program, borrowers may be granted rate and payment reductions for 6 months to 1 year. In the credit card workout program, customers are granted a rate reduction to 0 percent and term extensions for up to 5 years to pay off the remaining balance.

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Note 4 Loans (Continued)

On September 30, 2013 and 2012, FHN had $385.3 million and $371.4 million portfolio loans classified as TDRs, respectively. For TDRs in the loan portfolio, FHN had loan loss reserves of $61.3 million and $60.0 million, or 16 percent as of September 30, 2013 and 2012. Additionally, FHN had restructured $193.0 million and $171.9 million of loans held-for-sale as of September 30, 2013 and 2012, respectively. Loans held-for-sale are presented at UPB before fair value adjustments and do not carry reserves.

The following tables reflect portfolio loans (excluding acquired loans) that were classified as TDRs during the three and nine months ended September 30, 2013 and 2012:

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

	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
(Dollars in thousands)	Number	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial (C&I):						
General C&I	8	$ 4,285	$ 4,244	19	$ 22,406	$ 22,264
Total commercial (C&I)	8	4,285	4,244	19	22,406	22,264
Commercial real estate:						
Income CRE	3	4,538	4,144	9	13,045	12,502
Residential CRE				2	88	87
Total commercial real estate	3	4,538	4,144	11	13,133	12,589

Consumer real estate:									
HELOC	737		17,087		16,916	831		27,730		27,511
R/E installment loans	567		13,604		13,445	677		26,782		25,710
Total consumer real estate	1,304		30,691		30,361	1,508		54,512		53,221
Permanent mortgage	61		16,641		16,648	123		66,308		66,710
Credit card & other	26		101		97	188		1,063		1,025
Total troubled debt restructurings	1,402	$	56,256	$	55,494	1,849	$	157,422	$	155,809

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Note 4 Loans (Continued)

The following table presents TDRs which were re-defaulted during the three and nine months ended September 30, 2013 and 2012, and as to which the modification occurred 12 months or less prior to the re-default. Financing receivables that became classified as TDRs within the previous 12 months and for which there was a payment default during the period are calculated by first identifying TDRs that were in default during the period and then determining whether they were modified within the 12 months prior to the default. For purposes of this disclosure, FHN generally defines payment default as a loan being 30 plus days past due.

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
(Dollars in thousands)	Number	Recorded Investment	Number	Recorded Investment
Commercial (C&I):				
General C&I	6	$ 1,870	8	$ 5,977
Total commercial (C&I)	6	1,870	8	5,977
Commercial real estate:				
Income CRE	3	750	4	1,548
Residential CRE			1	33
Total commercial real estate	3	750	5	1,581
Consumer real estate:				
HELOC	1	35	10	512
R/E installment loans	3	229	6	350
Total consumer real estate	4	264	16	862
Permanent mortgage	4	2,071	14	6,507
Credit card & other	8	34	15	61
Total troubled debt restructurings	25	$ 4,989	58	$ 14,988

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
(Dollars in thousands)	Number	Recorded Investment	Number	Recorded Investment
Commercial (C&I):				
General C&I	9	$ 8,559	27	$ 21,618
Total commercial (C&I)	9	8,559	27	21,618
Commercial real estate:				
Income CRE	9	10,396	19	18,840
Residential CRE	1	73	3	259
Total commercial real estate	10	10,469	22	19,099

Consumer real estate:				
HELOC	15	1,749	31	3,379
R/E installment loans	4	210	33	3,392
Total consumer real estate	19	1,959	64	6,771
Permanent mortgage	6	2,743	9	3,515
Credit card & other	4	17	19	69
Total troubled debt restructurings	48	$ 23,747	141	$ 51,072

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

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Note 5 Mortgage Servicing Rights

FHN recognizes all classes of mortgage servicing rights (MSR) at fair value. Classes of MSR are established based on market inputs used to determine the fair value of the servicing asset and FHN s risk management practices. See Note 17 Fair Value of Assets & Liabilities, the Determination of Fair Value section for a discussion of FHN s MSR valuation methodology and Note 15 Derivatives for a discussion of how FHN hedges the fair value of MSR. The balance of MSR included on the Consolidated Condensed Statements of Condition represents the rights to service approximately $15 billion and $20 billion of mortgage loans on September 30, 2013 and 2012, respectively, for which a servicing right has been capitalized.

In third quarter 2013, FHN agreed to sell its legacy mortgage servicing. Completion of the sale is contingent upon customary closing conditions and will result in de-recognition of substantially all first lien MSR.

Following is a summary of changes in capitalized MSR as of September 30, 2013 and 2012:

(Dollars in thousands)	First Liens	Second Liens	HELOC	Total
Fair value on January 1, 2012	$ 140,724	$ 231	$ 3,114	$ 144,069
Reductions due to loan payments	(18,214)	(26)	(257)	(18,497)
Reductions due to exercise of cleanup calls	(494)			(494)
Changes in fair value due to:				
Changes in valuation model inputs or assumptions	(4,503)			(4,503)
Other changes in fair value	(73)		35	(38)
Fair value on September 30, 2012	$ 117,440	$ 205	$ 2,892	$ 120,537
Fair value on January 1, 2013	**$ 111,314**	**$ 196**	**$ 2,801**	**$ 114,311**
Reductions due to loan payments	**(16,980)**	**(75)**	**(342)**	**(17,397)**
Reductions due to exercise of cleanup calls	**(495)**			**(495)**
Changes in fair value due to:				
Changes in valuation model inputs or assumptions	**20,267**			**20,267**
Other changes in fair value	**(89)**	**45**	**44**	
Fair value on September 30, 2013	**$ 114,017**	**$ 166**	**$ 2,503**	**$ 116,686**

Servicing, late, and other ancillary fees recognized within mortgage banking income were $10.9 million and $13.8 million for the three months ended September 30, 2013 and 2012, respectively, and $35.3 million and $46.0 million for the nine months ended September 30, 2013 and 2012, respectively. FHN services a portfolio of mortgage loans related to transfers by other parties utilizing securitization trusts. The servicing assets represent FHN s sole interest in these transactions. The total MSR recognized by FHN related to these transactions was $1.4 million and $1.7 million at September 30, 2013 and 2012, respectively. The aggregate principal balance serviced by FHN for these transactions was $.2 billion at September 30, 2013 and $.4 billion at September 30, 2012. FHN has no obligation to provide financial support and has not provided any form of support to the related trusts. The MSR recognized by FHN has been included in the first lien mortgage loans column within the rollforward of MSR.

In prior periods, FHN transferred MSR to third parties in transactions that did not qualify for sales treatment due to certain recourse provisions that were included within the sale agreements. On September 30, 2013 and 2012, FHN had $11.7 million and $11.6 million, respectively, of MSR related to these transactions. These MSR are included within the first liens mortgage loans column within the rollforward of MSR. The proceeds from these transfers have been recognized within Other short-term borrowings in the Consolidated Condensed Statements of Condition.

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Note 6 Intangible Assets

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

(Dollars in thousands)	Goodwill	Other Intangible Assets (a)
December 31, 2011	$ 133,659	$ 26,243
Amortization expense		(2,931)
Additions	583	367
September 30, 2012	$ 134,242	$ 23,679
December 31, 2012	$ 134,242	$ 22,700
Amortization expense		(2,784)
Additions	6,237	2,300
September 30, 2013	**$ 140,479**	**$ 22,216**

(a) Represents customer lists, acquired contracts, premium on purchased deposits, and covenants not to compete.

In accordance with applicable accounting guidance all measurement period adjustments related to acquisitions are presented in the quarter of purchase with revision of previously reported amounts.

The gross carrying amount of other intangible assets subject to amortization is $60.1 million on September 30, 2013, net of $37.9 million of accumulated amortization. Estimated aggregate amortization expense is expected to be $1.0 million for the remainder of 2013, and $3.8 million, $3.6 million, $3.4 million, $3.2 million, and $3.1 million for the twelve-month periods of 2014, 2015, 2016, 2017, and 2018, respectively.

The following is a summary of gross goodwill and accumulated impairment losses and write-offs detailed by reportable segments included in the Consolidated Condensed Statements of Condition through September 30, 2013. Gross goodwill, accumulated impairments, and accumulated divestiture related write-offs were determined beginning on January 1, 2002, when a change in accounting requirements resulted in goodwill being assessed for impairment rather than being amortized.

(Dollars in thousands)	Non-Strategic	Regional Banking	Capital Markets	Total
Gross goodwill	$ 199,995	$ 36,238	$ 97,421	$ 333,654
Accumulated impairments	(114,123)			(114,123)
Accumulated divestiture related write-offs	(85,872)			(85,872)
December 31, 2011	$	$ 36,238	$ 97,421	$ 133,659
Additions			583	583
Impairments				
Divestitures				
Net change in goodwill during 2012			583	583
Gross goodwill	$ 199,995	$ 36,238	$ 98,004	$ 334,237
Accumulated impairments	(114,123)			(114,123)

Accumulated divestiture related write-offs	(85,872)			(85,872)
September 30, 2012	$	$ 36,238	$ 98,004	$ 134,242
Gross goodwill	$ 199,995	$ 36,238	$ 98,004	$ 334,237
Accumulated impairments	(114,123)			(114,123)
Accumulated divestiture related write-offs	(85,872)			(85,872)
December 31, 2012	$	$ 36,238	$ 98,004	$ 134,242
Additions		6,237		6,237
Impairments				
Divestitures				
Net change in goodwill during 2013		6,237		6,237
Gross goodwill	$ 199,995	$ 42,475	$ 98,004	$ 340,474
Accumulated impairments	(114,123)			(114,123)
Accumulated divestiture related write-offs	(85,872)			(85,872)
September 30, 2013	**$**	**$ 42,475**	**$ 98,004**	**$ 140,479**

Note 7 Other Income and Other Expense

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2013**	2012	**2013**	2012
All other income and commissions:				
Bankcard income	**$ 5,303**	$ 5,298	**$ 15,484**	$ 16,618
Other service charges	**3,707**	3,263	**10,296**	9,768
Bank-owned life insurance	**3,560**	4,293	**12,978**	13,724
ATM interchange fees	**2,680**	2,579	**7,691**	7,804
Deferred compensation (a)	**2,160**	1,966	**3,475**	4,065
Electronic banking fees	**1,607**	1,589	**4,754**	4,927
Letter of credit fees	**1,171**	1,072	**3,866**	3,966
Other	**3,996**	6,280	**11,230**	16,535
Total	**$ 24,184**	$ 26,340	**$ 69,774**	$ 77,407
All other expense:				
Advertising and public relations	**$ 5,486**	$ 4,121	**$ 13,554**	$ 11,524
Other insurance and taxes	**3,215**	1,327	**9,337**	7,656
Tax credit investments	**3,079**	5,635	**9,040**	14,457
Travel and entertainment	**2,400**	2,009	**6,620**	6,308
Employee training and dues	**1,244**	1,032	**3,727**	3,354
Customer relations	**1,204**	1,027	**3,737**	3,230
Supplies	**950**	881	**2,710**	2,731
Bank examinations costs	**819**	816	**2,476**	2,415
Loan insurance expense	**490**	578	**1,533**	1,803
Federal service fees	**276**	323	**840**	972
Litigation and regulatory matters	**229**	6,760	**6,299**	29,013
Other	**7,376**	5,478	**18,926**	25,108
Total	**$ 26,768**	$ 29,987	**$ 78,799**	$ 108,571

(a) Deferred compensation market value adjustments are mirrored by adjustments to employee compensation, incentives, and benefits expense.

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Note 8 Changes in Accumulated Other Comprehensive Income Balances

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

(Dollars in thousands, unless otherwise noted)	Unrealized Gain/(Loss) On Securities Available-For-Sale	Pension and Post Retirement Plans	Total
Balance as of July 1, 2013	$ 9,439	$ (198,104)	$ (188,665)
Other comprehensive income before reclassifications, Net of tax expense of $1.1 million for unrealized gain/(loss) on securities available-for-sale	1,714		1,714
Amounts reclassified from accumulated other comprehensive income, Net of tax expense of $6.6 million for pension and post retirement plans		10,560	10,560
Net current period other comprehensive income, Net of tax expense of $1.1 million and $6.6 million for unrealized gain/(loss) on securities available-for-sale and pension and post retirement plans, respectively	1,714	10,560	12,274
Balance as of September 30, 2013	$ 11,153	$ (187,544)	$ (176,391)
Balance as of January 1, 2013	$ 55,250	$ (201,593)	$ (146,343)
Other comprehensive income before reclassifications, Net of tax benefit of $27.6 million and tax expense $.1 million for unrealized gain/(loss) on securities available-for-sale and pension and post retirement plans, respectively	(44,097)	169	(43,928)
Amounts reclassified from accumulated other comprehensive income, Net of tax expense of $8.7 million for pension and post retirement plans		13,880	13,880
Net current period other comprehensive income, Net of tax benefit of $27.6 million and tax expense of $8.8 million for unrealized gain/(loss) on securities available-for-sale and pension and post retirement plans, respectively	(44,097)	14,049	(30,048)
Balance as of September 30, 2013	$ 11,153	$ (187,544)	$ (176,391)

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Note 9 Earnings Per Share

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

(Dollars in thousands)	Three Months Ended September 30 **2013**	2012	Nine Months Ended September 30 **2013**	2012
Income/(loss) from continuing operations	**$ (103,149)**	$ 28,574	**$ (13,375)**	$ (60,037)
Income/(loss) from discontinued operations, net of tax	**123**	108	**554**	160
Net income/(loss)	**(103,026)**	28,682	**(12,821)**	(59,877)
Net income attributable to noncontrolling interest	**2,875**	2,875	**8,531**	8,563
Net income/(loss) attributable to controlling interest	**(105,901)**	25,807	**(21,352)**	(68,440)
Preferred stock dividends	**1,550**		**4,288**	
Net income/(loss) available to common shareholders	**$ (107,451)**	$ 25,807	**$ (25,640)**	$ (68,440)
Income/(loss) from continuing operations	**$ (103,149)**	$ 28,574	**$ (13,375)**	$ (60,037)
Net income attributable to noncontrolling interest	**2,875**	2,875	**8,531**	8,563
Preferred stock dividends	**1,550**		**4,288**	
Net income/(loss) from continuing operations available to common shareholders	**$ (107,574)**	$ 25,699	**$ (26,194)**	$ (68,600)

The component of Income/(loss) from continuing operations attributable to FHN as the controlling interest holder was $(106.0) million and $25.7 million during the three months ended September 30, 2013 and 2012, respectively, and $(21.9) million and $(68.6) million during the nine months ended September 30, 2013 and 2012, respectively.

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

(Shares in thousands)	Three Months Ended September 30 **2013**	2012	Nine Months Ended September 30 **2013**	2012
Weighted average common shares outstanding basic	**236,895**	246,628	**238,990**	249,742
Effect of dilutive securities		1,678		
Weighted average common shares outstanding diluted	**236,895**	248,306	**238,990**	249,742

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

	Three Months Ended September 30 **2013**	2012	Nine Months Ended September 30 **2013**	2012
Earnings/(loss) per common share:				
Income/(loss) per share from continuing operations available to common shareholders	**$ (0.45)**	$ 0.10	**$ (0.11)**	$ (0.27)
Income/(loss) per share from discontinued operations, net of tax				

Net income/(loss) per share available to common shareholders	**$ (0.45)**	$ 0.10	**$ (0.11)**	$ (0.27)
Diluted earnings/(loss) per common share:				
Diluted income/(loss) per share from continuing operations available to common shareholders	**$ (0.45)**	$ 0.10	**$ (0.11)**	$ (0.27)
Diluted income/(loss) per share from discontinued operations, net of tax				
Diluted income/(loss) per share available to common shareholders	**$ (0.45)**	$ 0.10	**$ (0.11)**	$ (0.27)

For the three and nine months ended September 30, 2013, and nine months ended September 30, 2012, all potential common shares were antidilutive due to the net loss attributable to common shareholders for these periods. For the three months ended September 30, 2012, the dilutive effect for all potential common shares was 1.7 million. 9.4 million and 10.0 million stock options, with weighted average exercise prices of $19.55 and $21.27 per share for the three months ended September 30, 2013 and 2012, respectively, were excluded from diluted shares because including such shares would be antidilutive. 9.8 million and 10.4 million stock options, with weighted average exercise prices of $20.00 and $21.94 per share for the nine months ended September 30, 2013 and 2012, respectively, were also excluded from diluted shares. Other equity awards of 2.8 million for the three months ended September 30, 2013, were excluded from diluted shares while other equity awards of 3.0 million and 3.5 million for the nine months ended September 30, 2013 and 2012, respectively, were excluded from diluted shares because including such shares would have been antidilutive.

Note 10 Contingencies and Other Disclosures

Contingencies

General

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

In addition, disclosure of a range of reasonably possible loss associated with contingent liabilities, as prescribed by applicable financial accounting guidance, is provided as to those matters where there is more than a remote chance of an estimable, material loss outcome for FHN in excess of currently established loss liabilities. Based on current knowledge, and after consultation with counsel, management is of the opinion that loss contingencies related to such threatened or pending litigation matters should not have a material adverse effect on the consolidated financial condition of FHN, but may be material to FHN s operating results for any particular reporting period depending, in part, on the results from that period.

Litigation Gain Contingency

The Chapter 11 Liquidation Trustee (the Trustee) of Sentinel Management Group, Inc. (Sentinel) filed complaints against two subsidiaries, First Tennessee Bank National Association (FTBNA) and FTN Financial Securities Corp. (FTN), and two former FTN employees. The Trustee s claims related to Sentinel s purchases of Preferred Term Securities Limited (PreTSL) products and other securities from FTN and/or the FTN Financial Capital Markets division of FTBNA from March 2005 to August 2007. In July 2011, the parties reached an agreement to settle the dispute. Under the terms of the settlement the Trustee received a total of $38.5 million. After considering the terms of the settlement, FHN recognized a pre-tax expense of $36.7 million during second quarter 2011 related to the settlement. FHN believes that certain insurance policies provide coverage for these losses and related litigation costs, subject to policy limits and applicable deductibles. The insurers have denied coverage. FHN has brought suit against the insurers to enforce the policies under Tennessee law. The case is in U.S. District Court for the Western District of Tennessee styled as *First Horizon National Corporation, et al. v. Certain Underwriters at Lloyd s Syndicate Nos. 2987, et al.,* No. 2:11-cv-02608. In connection with this matter the previously recognized expense may be recouped in whole or in part. As to this matter, under applicable financial accounting guidance, FHN has determined that although material gain is not probable there is more than a slight chance of a material gain outcome for FHN. FHN cannot estimate the amount of possible gain that might result from this matter because of general uncertainties associated with unresolved legal proceedings and also due to significant uncertainties regarding: legal interpretation of the relevant contracts; potential remedies that might be available or awarded; and the incomplete status of the discovery process.

Litigation Loss Contingencies

Set forth below are discussions of certain pending or threatened litigation matters. These material loss contingency matters generally fall into the following categories: (i) FHN has determined material loss to be probable and has established a material loss liability in accordance with applicable financial accounting guidance, other than matters reported as having been substantially settled or otherwise substantially resolved; (ii) FHN has determined material loss to be probable but is unable to determine an amount of material loss liability; or (iii) FHN has determined that material loss is not probable but is reasonably possible (as defined in applicable accounting guidance, there is more than a remote chance of a material loss outcome for FHN). In all litigation matters discussed, except as indicated, FHN has estimated a range of reasonably possible loss outcomes in excess of any currently established loss liabilities. In all litigation matters discussed, unless settled or resolved, FHN believes it has meritorious defenses and intends to pursue those defenses vigorously.

FHN reassesses the liability for litigation matters each quarter as the matters progress. At September 30, 2013, the aggregate amount of liabilities established for the litigation loss contingency matters discussed below was $21.1 million. Only one pending matter discussed under the heading

First Horizon Branded Mortgage Securitization Litigation Matters below, the FHFA case, is among those matters for which a liability has been established. The liabilities discussed in this paragraph are separate from those discussed under the heading Established Repurchase Liability below.

Note 10 Contingencies and Other Disclosures (Continued)

In each potential loss contingency litigation matter discussed below, except as otherwise noted, there is a more than slight chance that each of the following outcomes will occur: the plaintiff will substantially prevail; the defense will substantially prevail; the plaintiff will prevail in part; or the matter will be settled by the parties. At September 30, 2013, FHN estimates that, for those litigation loss contingency matters discussed below as to which reasonably possible loss is estimable, reasonably possible losses in future periods in excess of currently established liabilities could aggregate in a range from zero to approximately $242 million. Of those matters discussed under the heading First Horizon Branded Mortgage Securitization Litigation Matters, only the FHFA, Charles Schwab, Western & Southern, and FDIC (NY) suits are included in that range.

Matters Included in Reasonably Possible Loss Range

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

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

Matters Not Included in Reasonably Possible Loss Range

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

Inquiry Regarding FHA-Insured Loans. Since second quarter 2012 FHN has been cooperating with the U.S. Department of Justice (DOJ) and the Office of the Inspector General for the Department of Housing and Urban Development (HUD) in a civil investigation regarding compliance with requirements relating to certain FHA-insured loans. During second quarter 2013 DOJ and HUD provided FHN with preliminary findings of the investigation, which has focused on a small sample of loans and remains incomplete. No demand or claim has been made of FHN, and FHN is conducting its own analysis of the sample. The investigation could lead to a demand under the federal False Claims Act and the federal Financial Institutions Reform, Recovery, and Enforcement Act of 1989, which allow treble and other special damages substantially in excess of actual losses. Currently FHN is not able to predict the eventual outcome of this matter. FHN has established no liability for this matter and is not able to estimate a range of reasonably possible loss due to significant uncertainties regarding: the absence of any specific demand or claim; the potential remedies, including any amount of enhanced damages, that might be available or awarded; the availability of significantly dispositive defenses; FHN s lack of information that would enable FHN to assess performance concerning its FHA-insured originations, many of which FHN does not service; and the small number of precedent claims and resolutions combined with a lack of underlying data connected with those resolutions.

The investigation has focused on loans originated by FHN on or after January 1, 2006. FHA-insured originations from January 1, 2006 through the 2008 divestiture of FHN s national mortgage platform totaled 47,817 loans with an aggregate original principal balance of $8.2 billion. FHA-insured originations during the four years following the divestiture (through August 31, 2012) totaled 2,681 loans with an aggregate original principal balance of $356.5 million.

Note 10 Contingencies and Other Disclosures (Continued)

Branch Sale Litigation Matter. Manufacturers & Traders Trust Company (M&T) has pursued an arbitration claim against FTBNA arising out of FTBNA s sale of certain branch assets to M&T in 2007. M&T claimed that FTBNA violated its obligations to repurchase home equity lines of credit (HELOCs) that it sold to M&T as part of the asset sale agreement. M&T alleged that the loans either are not in conformity with FTBNA s representations about them or are insured and sold due to mutual mistake or both. As a result of rulings to date the unresolved aspects of the claim have narrowed for certain non-core issues. FHN estimates that future reasonably possible loss related to this matter should fall within the currently established liability for this matter, which is included in the total mentioned above.

First Horizon Branded Mortgage Securitization Litigation Matters

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

At the time this report is filed, FHN, along with multiple defendants, is defending several lawsuits brought by investors which claim that the offering documents under which certificates relating to First Horizon branded securitizations (FH proprietary securitizations) were sold to them were materially deficient. The plaintiffs and venues of these suits are: (1) the Federal Housing Finance Agency (FHFA), as conservator for Fannie Mae and Freddie Mac, in U.S. District Court for the Southern District of New York (Case No. 11-cv-6193 (PGG)); (2) Charles Schwab Corp. in the Superior Court of San Francisco, California (Case No. 10-501610); (3) Western & Southern Life Insurance Co, among others in the Court of Common Pleas, Hamilton County, Ohio (Case No. A1105352); (4) Federal Deposit Insurance Corporation (FDIC) as receiver for Colonial Bank, in the U.S. District Court for the Middle District of Alabama (Case No. CV-12-791-WKW-WC); and (5) FDIC as a receiver for Colonial Bank, in the U.S. District Court for the Southern District of New York (Case No. 12 Civ. 6166 (LLS)(MHD)). The plaintiffs in the pending suits claim to have purchased certificates in a number of separate FH proprietary securitizations and demand that FHN repurchase their investments, or answer in damages or rescission, among other remedies sought.

In some of the pending suits underwriters are co-defendants and have demanded, under provisions in the applicable underwriting agreements, that FHN indemnify them for their expenses and any losses they may incur. In addition, FHN has received indemnity demands from underwriters in certain other suits as to which investors claim to have purchased senior certificates in FH proprietary securitizations. FHN has not been named a defendant in these suits, which FHN is defending indirectly as indemnitor. The plaintiffs and venues of these other suits are: (6) FHLB of San Francisco, in the Superior Court of San Francisco County, California (Case No. CGC-10-497840); (7) Metropolitan Life Insurance Co., in the Supreme Court of New York County, New York (No. 651360-2012); and (8) Royal Park Invs. SA/NV, in the Supreme Court of New York County, New York (No. 652607-2012).

Details concerning the original purchase amounts and ending balances of the investments at issue in these pending suits, as to which FHN is a named defendant or as to which FHN has an agreement to indemnify an underwriter defendant, are set forth below. Information about the performance of the FH proprietary securitizations related to these suits is available in monthly reports published by the trustee for the securitization trusts. FHN believes that certain plaintiffs did not purchase the entire certificate in the securitizations in which they invested. Reporting by the trustee is at a certificate level and, as a result, ending certificate balances in the following table were adjusted to reflect FHN s estimate of the ending balance of each partial certificate purchased by these plaintiffs. Plaintiffs in the pending lawsuits claim to have purchased a total of $1.1 billion of certificates and the purchase price of the certificates subject to the indemnification requests total $331.4 million. Senior and Junior refer to the ranking of the investments in broad terms; in most cases the securitization provided for sub-classifications within the Senior or Junior groups.

	Alt-A		Jumbo	
(Dollars in thousands)	Senior	Junior	Senior	Junior
Vintage				
Original Purchase Price:				
2005(a)	$ 843,868	$	$ 30,000	$
2006(a)	307,926			9,793
2007	204,061		50,000	7,084

Total	$ 1,355,855	$	$ 80,000	$ 16,877
Ending Balance per the September 25, 2013, trust statements:				
2005	$ 309,678	$	$ 10,922	$
2006	108,102			2,841
2007	100,659		16,697	
Total	$ 518,439	$	$ 27,619	$ 2,841

(a) The amounts shown in the table which are the subject of the FHFA litigation includes $230,020 of the Senior Alt-A loans from 2006 and $643,751 of the Senior Alt-A loans from 2005.

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Note 10 Contingencies and Other Disclosures (Continued)

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

The ending certificate balance of the investments which are the subject of the FHFA lawsuit was $316.4 million as reported on the September 25, 2013, trust statements, with approximately 90 percent of the remaining balances performing. Cumulative losses on the FHFA investments which are the subject of the lawsuit, as reported on the trust statements, represent approximately 7 percent of the original principal amount underlying the certificates purchased. The total ending certificate balance of the investments which are the subject of the remaining lawsuits was $232.5 million as reported on the September 25, 2013, trust statements, with approximately 80 percent of the remaining balances performing. Cumulative losses on the investments which are the subject of the remaining lawsuits, as reported on the trust statements, represent approximately 7 percent of the original principal amount underlying the certificates purchased. Ending certificate balances reflect the remaining principal balance on the certificates, after the monthly principal and interest distributions and after reduction for applicable cumulative and current realized losses. Recognized cumulative losses may not take into account all outstanding principal and interest amounts advanced by the servicer due to nonpayment by the borrowers; reimbursement of those advances to the servicer may increase cumulative losses. Losses often are reported by the trustee based on each certificate within a pool or group, which limits FHN s ability to ascertain losses at the individual investor level.

As discussed under Legacy Home Loan Sales and Servicing, similar claims may be pursued by other investors, and loan repurchase, make-whole, or indemnity claims may be pursued by securitization trustees or other parties to transactions seeking indemnity. At September 30, 2013, except for the FHFA case, FHN had not recognized a liability for exposure for investment rescission or damages arising from the foregoing or other potential claims by investors that the offering documents under which the loans were securitized were materially deficient, nor for exposure for repurchase of loans arising from potential claims that FHN breached its representations and warranties made in FH proprietary securitizations at closing.

Contract Claim Settlement Process Mortgage Repurchase Pipeline

For several years FHN has received claims from government sponsored enterprises (GSEs), other government agencies, mortgage insurers, and others that FHN breached certain representations and warranties made in connection with whole-loan sales prior to September 2008. Generally such claims request or otherwise demand that FHN repurchase the loans or otherwise make the purchaser whole. FHN analyzes these claims using a pipeline approach. FHN reviews each claim in the pipeline and either offers to satisfy the claim or rejects the claim by asking the claimant to rescind it. FHN has established a material loss liability for probable incurred losses related to repurchase obligations for breaches of selling representations and warranties. Estimation for losses associated with repurchase obligations includes both trends observed in the pipeline, and additional information that encompasses a broader population of loans. See the discussion under Estimated Repurchase Liability. As of September 30, 2013, none of these claims had become active litigation. These matters and the associated reserving methodologies are discussed under Legacy Home Loan Sales and Servicing.

Legacy Home Loan Sales and Servicing

Overview

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

Regarding these past first lien loan sale activities, FHN has exposure to potential loss primarily through two avenues. First, purchasers of these mortgage loans may request that FHN repurchase loans or make the purchaser whole for economic losses incurred if it is determined that FHN violated certain contractual representations and warranties made at the time of these sales. Contractual representations and warranties differ based on deal structure and counterparty. For whole-loan sales, a claimant generally would be the

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Note 10 Contingencies and Other Disclosures (Continued)

purchaser. For securitizations, a repurchase claimant generally would be a trustee. Second, investors in securitizations may attempt to achieve rescission of their investments or damages through litigation by claiming that the applicable offering documents were materially deficient. In addition, augmenting these avenues: the trustee for the securitized loans may seek repurchase of loans under contractual remedies; some of the loans that were sold or securitized were insured and the insurance carrier may seek repurchase or make-whole remedies by claiming that FHN violated certain contractual representations and warranties made in connection with the insurance contract; some of the loans sold to non-Agency whole-loan purchasers were included in securitizations of the purchasers, and the purchasers may seek repurchase or indemnification for losses and expenses caused by such a violation by FHN; and, some loans were originated under government insurance or guarantee programs and the government agency, or a person acting on its behalf, may seek contractual or statutory remedies based on claimed violations of the requirements of the respective program. In some cases FHN retains the servicing of the loans sold or securitized and so has substantial visibility into the status of the loans; in many cases FHN does not retain servicing and has had very limited or no such direct visibility.

From 2005 through 2008, FHN originated and sold $69.5 billion of mortgage loans without recourse which includes $57.6 billion of loans sold to GSEs and $11.9 billion of loans guaranteed by Ginnie Mae. Although additional GSE sales occurred in earlier years, a substantial majority of GSE repurchase requests have come from that period. While substantially all of the losses for repurchase obligations related to sales to GSEs have been from vintages originated during 2005 through 2008, the definitive resolution agreement (DRA) discussed below also includes originations from 2000 through 2004. In addition, for many years ending in 2007, FHN securitized mortgage loans without recourse in First Horizon branded proprietary transactions. From 2005 through 2007, FHN securitized $26.7 billion of mortgage loans under the First Horizon (FH) brand.

On August 31, 2008 FHN sold its national mortgage and servicing platforms along with a portion of its servicing assets and obligations. This is sometimes referred to as the 2008 sale, the 2008 divestiture, the platform sale, or other similar terms. FHN contracted with the purchaser to have its remaining servicing obligations sub-serviced by the purchaser through August 2011.

Loans Sold With Full or Limited Recourse

Although not a substantial part of FHN s former business, FHN sold certain Agency mortgage loans with full recourse under agreements to repurchase the loans upon default. Loans sold with full recourse generally include mortgage loans sold to investors in the secondary market which are uninsurable under government mortgage loan programs due to issues associated with underwriting activities, documentation, or other concerns. For mortgage insured single-family residential loans, in the event of borrower nonperformance, FHN would assume losses to the extent they exceed the value of the collateral and private mortgage insurance (MI), the Federal Housing Administration (FHA) insurance, or the Veteran s Administration (VA) guaranty. On September 30, 2013 and 2012, the current UPB of single-family residential loans that were sold on a full recourse basis with servicing retained was $30.0 million and $37.8 million, respectively.

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

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

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

Agency Whole-loan Sales

Substantially all of the conventional, conforming mortgage loans originated by FHN were sold to the GSEs. Each agency has specific guidelines and criteria for originators and servicers of loans backing their respective securities, and the risk of credit loss with regard to the principal

amount of the loans sold was generally transferred to the GSEs upon sale, or resides with the insuring government agency if the loans were guaranteed through Ginnie.

Generally these loans were sold without recourse for credit loss. However, if it is determined that the loans sold were in breach of representations or warranties required by the Agency and made by FHN at the time of sale, FHN has obligations to either repurchase the loan for the UPB or make the purchaser whole for the economic loss incurred by the purchaser of such loan. Such representations and warranties required by the Agencies typically include those made regarding the existence and sufficiency of file documentation and the absence of fraud by borrowers or other third parties such as appraisers in connection with obtaining the loan. A substantial amount of FHN s existing repurchase obligations from outstanding requests relate to conforming conventional mortgage loans that were sold to the GSEs. Since the mortgage platform sale in 2008 through September 30, 2013, Agencies have accounted for the vast majority of repurchase/make-whole claims received.

Note 10 Contingencies and Other Disclosures (Continued)

GSE Settlement Efforts

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

FHN currently has no agreement in principle or definitive resolution with Freddie Mac. In addition, FHN continues to have limited visibility into the performance of many loans sold to Freddie Mac. Freddie Mac has not yet provided the type of information which Fannie Mae provided leading up to the DRA.

The repurchase liability FHN has recorded as of September 30, 2013 contemplates, among other things, the DRA, estimates of FHN s repurchase exposure related to loans excluded from the DRA, and estimates of FHN s repurchase exposure related to loans sold to Freddie Mac based on the information obtained from Fannie Mae. See Established Repurchase Liability below for additional information.

First Horizon Branded Proprietary Mortgage Securitizations

From 2005 through 2007 FHN originated and sold certain non-agency, nonconforming mortgage loans, consisting of Jumbo and Alternative-A (Alt A) first lien mortgage loans, to private investors through 80 proprietary securitization trusts under the FH brand. Securitized loans generally were sold indirectly to investors as interests, commonly known as certificates, in trusts. The certificates were sold to a variety of investors, including GSEs in some cases, through securities offerings under a prospectus or other offering documents. In most cases, the certificates were tiered into different risk classes, with junior classes exposed to trust losses first and senior classes exposed only after junior classes were exhausted. Through third quarter 2013, FHN continues to service substantially all of the remaining loans sold through FH proprietary securitizations. As of September 30, 2013, the remaining UPB in active FH proprietary securitizations from 2005 through 2007 was $7.4 billion consisting of $5.0 billion Alt-A mortgage loans and $2.4 billion Jumbo mortgage loans. Representations and warranties were made to the securitization trustee for the benefit of investors. As such, FHN has exposure to the trustee for repurchase of loans arising from claims that FHN breached its representations and warranties made at closing, and exposure to investors for investment rescission or damages arising from claims by investors that the offering documents under which the loans were securitized were materially deficient. As of September 30, 2013, the repurchase request pipeline contained no repurchase requests related to FH proprietary first lien securitizations based on breaches of representations and warranties.

Unlike loans sold to GSEs, contractual representations and warranties for FH proprietary first lien securitizations do not include specific representations regarding the absence of other-party fraud or negligence in the underwriting or origination of the mortgage loans. Securitization documents typically provide the investors with a right to request that the trustee investigate and initiate repurchase of a mortgage loan if FHN breached certain representations and warranties made at the time the securitization closed and such breach materially and adversely affects the interests of the investors in such mortgage loan. The securitization documents do not require the trustee to make an investigation into the facts or matters stated in any investor request or notice unless requested in writing to do so by the holders of certificates evidencing not less than 25 percent of the voting rights allocated to each class of certificates. The certificate holders also may be required to indemnify the trustee for its costs related to investigations made in connection with repurchase actions. FHN has no knowledge of any investor requests to the trustee of an FH proprietary securitization to investigate mortgage loans for possible breach of representations and warranties. GSEs were among the purchasers of certificates in FH proprietary securitizations. As such, they are entitled to the benefits of the same representations and warranties as other investors. However, the GSEs, acting through their conservator under federal law, are permitted to undertake, independently of other investors, reviews of FHN s mortgage loan origination and servicing files. Such reviews are commenced using a subpoena process. If, because of such reviews, the GSEs determine there has been a breach of a representation or warranty that has had a material and adverse effect on the interests of the investors in any mortgage loan, the GSEs may attempt to persuade or compel enforcement of a repurchase obligation against FHN by the securitization trustee. Certain other government entities have asserted a similar right of review not generally available to other investors. As discussed in more detail below, FHN has received several such subpoenas.

In addition, the FH proprietary securitization trustee generally may initiate a loan review, without prior official action by investors, for the purpose of determining compliance with applicable representations and warranties with respect to any or all of the active FH proprietary securitizations. If non-compliance is discovered, the trustee may seek repurchase or other relief. At September 30, 2013, FHN s trustee had made

no claims against FHN and no litigation by the trustee was pending against FHN. Accordingly, FHN is not able to estimate any liability for this risk. FHN similarly is not able to estimate a range of reasonably possible losses associated with this risk, and no such amounts are included in the aggregate range discussed above. Those inabilities are due to significant

Note 10 Contingencies and Other Disclosures (Continued)

uncertainties regarding: the absence of claims made; the nature and outcome of any claims process or related settlement discussions if pursued; the outcome of litigation if litigation is pursued; the identity and value of assets that FHN may be required to repurchase to the extent asset repurchase is sought; and the lack of precedent claims.

Also unlike loans sold to the GSEs through non-recourse whole-loan sales, interests in securitized loans were sold as securities under prospectuses or other offering documents subject to the disclosure requirements of applicable federal and state securities laws. As an alternative to pursuing a claim for breach of representations and warranties through the trustee as mentioned above, investors could pursue (and in certain cases mentioned below, are pursuing) a claim alleging that the prospectus or other disclosure documents were deficient by containing materially false or misleading information or by omitting material information. Claims for such disclosure deficiencies typically could be brought under applicable federal or state securities statutes, and the statutory remedies typically could include rescission of the investment or monetary damages measured in relation to the original investment made. Any such statutory claim would be subject to applicable limitation periods and other statutory defenses. If a plaintiff properly made and proved its allegations, the plaintiff might attempt to claim that damages could include loss of market value on the investment even if there were little or no credit loss in the underlying loans. Claims based on alleged disclosure deficiencies also could be brought as traditional fraud or negligence claims with a wider scope of damages possible. Each investor could bring such a claim individually, without acting through the trustee to pursue a claim for breach of representations and warranties, and investors could attempt joint claims or attempt to pursue claims on a class-action basis. Claims of this sort are likely to be resolved in a litigation context in most cases, unlike the GSE repurchase experience to date. The analysis of loss content and establishment of appropriate liabilities in those cases would follow principles and practices associated with litigation matters, including an analysis of available procedural and substantive defenses in each particular case, a determination of whether material loss is probable, and (if so) an estimation of the amount of ultimate loss, if any can be estimated. FHN expects most litigation claims to take much longer to resolve than repurchase requests typically have taken.

Monoline insurance was a form of credit enhancement provided to a securitization by an insurer not affiliated with FHN. Subject to the terms and conditions of the policy, the insurer guaranteed payments of accrued interest and principal due to the investors. None of the FH proprietary first lien securitizations involved the use of monoline insurance for the benefit of all classes of security holders. In certain limited situations, insurance was provided for a specific senior retail class of holders within an individual securitization. The only insured certificate more recent than 2004 is from 2005 and covered $25.0 million of original certificate balance. The trustee statement dated September 25, 2013, reported to FHN that the remaining outstanding certificate balance for the class was $23.5 million. FHN understands that some monoline insurers have commenced lawsuits against others in the industry seeking to rescind policies of this sort due to alleged misrepresentations as to the quality of the loan portfolio insured. FHN has not received notice of a lawsuit from the monoline insurers of the senior retail level class.

Other First Horizon Branded Proprietary Securitizations

FHN originated and sold home equity lines and second lien loans through certain FH proprietary securitization trusts, most of which related to HELOC loans. As of September 30, 2013, only three of those securitizations, all HELOC, remain active; the rest have been retired as a result of clean-up calls exercised by FHN. Each remaining trust issued notes backed by these loans and publicly offered the asset-backed notes to investors pursuant to a prospectus. The Trustee statements dated September 25, 2013, reported that the cumulative original and current outstanding note balances of the FH proprietary HELOC securitizations were $961.8 million and $311.8 million, respectively.

The loans in the FH HELOC securitization trusts are included on FHN s balance sheet in accordance with GAAP either as consolidated variable interest entities (VIEs) or because the securitization did not qualify for sale treatment under GAAP. These loans and the associated credit risk are reflected in FHN s consolidated financial statements.

The asset-backed notes issued in the FH proprietary HELOC securitizations were wrapped by monoline insurers. FHN understands that some monoline insurers have commenced lawsuits against other originators of asset-backed securities seeking to cancel policies of this sort due to alleged misrepresentations as to the quality of the loan portfolio insured. FHN has not received notice from a monoline insurer of any such lawsuit. The monoline insurers also have certain contractual rights to pursue repurchase and indemnification. In response to unreimbursed insurance draws resulting from insufficient remittances to investors, three monoline insurers of certain FH proprietary HELOC securitizations have commenced reviews of these HELOC securitizations and certain underlying loan files, underwriting guidelines, and payment histories. Repurchase requests have been received; in some cases requests have been rescinded and in others repurchases have been made. Because the underlying loans and their associated loss content are recorded on FHN s balance sheet, FHN reviews the portfolio each quarter for inherent loss and has established reserves for loss content. For that reason, FHN does not include these requests in the repurchase pipeline reported for first lien mortgages, and FHN believes that any ultimate cash payouts related to these loans are unlikely to have any material impact upon FHN s financial results as such payouts would be reflected as reductions to the existing balance of restricted or secured term borrowings. Additionally,

advances made by monoline insurers for the benefit of security holders have been recognized within restricted or secured term borrowings in the Consolidated Condensed Statements of Condition. This recognition practice is used because the insurers have a higher priority to certain cash flows from the securitization trusts than FHN.

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Note 10 Contingencies and Other Disclosures (Continued)

Other Whole-loan Sales

FHN has sold first lien mortgages without recourse through whole-loan sales to non-Agency purchasers. FHN made contractual representations and warranties to the purchasers generally similar to those made to Agency purchasers. As of September 30, 2013, 11 percent of repurchase/make-whole claims relate to private whole loan sales. These claims are included in FHN s liability methodology and the assessment of the adequacy of the repurchase and foreclosure liability.

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

Government Entity Loan Reviews

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

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

The subpoenas discussed above relate to ongoing reviews which ultimately could result in claims against FHN. The original and current (as of September 25, 2013 trust statements) combined first lien certificate balances of the related FH proprietary securitizations in which the credit unions invested were $321.6 million and $113.7 million, respectively. The original and current (as of September 25, 2013 trust statements) HELOC certificate balances of the related FH proprietary HELOC securitization in which the credit unions invested was $299.8 million and $84.4 million. The original and current certificate balances of the FH proprietary securitizations in which the FHLB of San Francisco invested are $501.1 million and $153.2 million, respectively. The original and current certificate balances of the FH proprietary securitizations in which the FHLB of Atlanta invested are $56.1 million and $11.2 million, respectively. There are limitations as to FHN s knowledge of the amount of FH proprietary securitizations investments that are subject to the FDIC, FHFA and FHLB of San Francisco subpoenas. Since the reviews at this time are neither repurchase claims nor litigation, the associated loans are not considered part of the repurchase pipeline.

Private Mortgage Insurance

MI was required by GSE rules for certain of the loans sold to GSEs and was also provided for certain of the loans that were securitized. MI generally was provided for the first lien loans sold or securitized having a loan-to-value ratio at origination of greater than 80 percent. Although unresolved MI cancellation notices related to GSE-owned loans are not formal repurchase requests, FHN includes these in the active repurchase request pipeline. FHN tracks and monitors MI cancellation notices received and considers the amount of loans sold to GSEs where MI coverage

has ultimately been lost when assessing the overall adequacy of FHN s repurchase liability. As of September 30, 2013 and 2012, $481.7 million and $415.2 million, respectively, of loans sold or securitized have lost MI coverage.

Established Repurchase Liability

In fourth quarter, FHN entered into a DRA, discussed above in GSE Settlement Efforts, to resolve certain selling representation and warranty repurchase obligations with Fannie Mae. During these discussions, FHN received additional information

Note 10 Contingencies and Other Disclosures (Continued)

which was used to estimate repurchase liability levels at quarter-end. That information encompassed a broader population of loans including older vintages and expanded selection criteria from the remaining loan populations. The new information added the origination vintages of 2000 through 2004, expanded the scope of selections, and included estimates for losses from loans in early stage delinquency, modifications, and loans determined to have a higher probability of default. FHN used the new information to estimate losses related to potential repurchase obligations not included in the DRA with Fannie Mae including future MI rescissions, prior bulk servicing sales where FHN is no longer the directly responsible party but still has repurchase obligations, repurchase obligations for loan sales to Freddie Mac, and obligations related to other loan sales. Additionally, FHN continues to monitor claims included in the active pipeline, historical repurchase rates, and loss severities.

Based on currently available information and experience to date, FHN has evaluated its exposure under these obligations and accordingly had reserved for losses of $295.2 million and $293.5 million as of September 30, 2013 and 2012, respectively, including a smaller amount related to equity-lending junior lien loan sales. Accrued liabilities for FHN s estimate of these obligations are reflected in Other liabilities on the Consolidated Condensed Statements of Condition. Charges to increase the liability are included within Repurchase and foreclosure provision on the Consolidated Condensed Statements of Income. The estimate is based upon currently available information and fact patterns that exist as of the balance sheet date and could be subject to future changes. Changes to any one of these factors could significantly impact the estimate of FHN s liability.

Servicing and Foreclosure Practices

FHN services a predominately first lien mortgage loan portfolio with an unpaid principal balance of approximately $15 billion as of September 30, 2013. A substantial portion of the first lien portfolio is serviced through a subservicer. FHN s national mortgage and servicing platforms were sold in August 2008 and the related servicing activities, including foreclosure and loss mitigation practices, of the still-owned portion of FHN s mortgage servicing portfolio was outsourced through a three year subservicing arrangement (the 2008 subservicing agreement) with the platform buyer (the 2008 subservicer). The 2008 subservicing agreement expired in 2011 when FHN entered into a replacement agreement with a new subservicer (the 2011 subservicer). In third quarter 2013 FHN agreed to sell a substantial majority of its remaining servicing obligations and servicing assets (including advances) to the 2011 subservicer. The servicing is expected to be transferred to the buyer during the next few months. The servicing retained by FHN continues to be subserviced by the 2011 subservicer under a subservicing agreement amended and extended through 2014.

The first lien portfolio is held primarily by private security holders and GSEs, with less significant portions held by other private investors. In connection with its servicing activities, FHN collects and remits the principal and interest payments on the underlying loans for the account of the appropriate investor. In the event of delinquency or non-payment on a loan in a private or agency securitization: (1) the terms of the private securities agreements generally require FHN, as servicer, to continue to make monthly advances of principal and interest (P&I) to the trustee for the benefit of the investors; (2) the terms of the majority of the agency agreements may require the servicer to make advances of P&I, or in certain circumstances to repurchase the loan out of the trust pool; and (3) the servicer may be required to advance escrow and other payments. In the event advances are ultimately made by FHN to satisfy these servicing obligations, these servicing advances are recoverable from: (a) the liquidation proceeds of the property securing the loan, in the case of private securitizations; (b) the proceeds of the foreclosure sale by the government agency, in the case of government agency-owned loans; and (c) in certain circumstances, mortgage payment pool funds. As of September 30, 2013 and 2012, FHN has recognized servicing advances of $289.1 million and $300.6 million, respectively. Servicing advances are included in Other assets on the Consolidated Condensed Statements of Condition.

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

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

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

Note 10 Contingencies and Other Disclosures (Continued)

settlement requires remediation for all borrowers with in-process foreclosures dating from 2009 or 2010 and certain other foreclosure-avoidance assistance from parties to the settlement. The OCC through a consultant operated the remediation process in 2013 by mailing checks, which was substantially completed in August 2013, from the settlement pool to eligible borrowers in amounts determined by the OCC. The remediation process should be completed during 2013.

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

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

Other Disclosures Visa Matters

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

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

In July 2012, Visa and MasterCard announced a joint settlement related to the Payment Card Interchange matter (the Settlement). The Settlement is subject to judicial approval. Based on the amount of the Settlement attributable to Visa and an assessment of FHN s contingent liability accrued for Visa litigation matters, the Settlement did not have a material impact on FHN. As a result of the Settlement, Visa funded an additional $150 million into the escrow account in July 2012, and as a result FHN made a payment to the counterparty of $.8 million. As of September 30, 2013, the conversion ratio is 42 percent, and the contingent liability is $.8 million. Future funding of the escrow would dilute this exchange rate by an amount that is not determinable.

As of September 30, 2013 and 2012, the derivative liabilities were $2.7 million and $2.3 million, respectively.

FHN now holds approximately 1.1 million Visa Class B shares. FHN s Visa shares are not considered to be marketable and therefore are included in the Consolidated Condensed Statements of Condition at their historical cost of $0. A fairness hearing regarding the Settlement was held on September 12, 2013, but no decision has been rendered. Accordingly, the outcome and timing of decisions from this hearing remain uncertain. Additionally, other Covered Litigation matters are also pending judicial resolution, including new matters filed by class members who opted-out of the Settlement. In the event that the Settlement is not approved and/or if resolution is pending for any Covered Litigation matter, FHN s ability to transfer its Visa holdings would continue to be restricted.

Note 10 Contingencies and Other Disclosures (Continued)

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.

Note 11 Pension, Savings, and Other Employee Benefits

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

FHN also maintains non-qualified plans including a supplemental retirement plan that covers certain employees whose benefits under the qualified pension plan have been limited. These other non-qualified plans are unfunded, and contributions to these plans cover all benefits paid under the non-qualified plans. Payments made under the non-qualified plans were $7.3 million for 2012. FHN anticipates making benefit payments under the non-qualified plans of $6.2 million in 2013.

The accrual of benefits under the qualified pension plan and the supplemental pension plan ceased as of December 31, 2012.

FHN utilizes the minimum amortization method in determining the amount of actuarial gains or losses to include in plan expense. Under this approach, the net deferred actuarial gain or loss that exceeds a threshold is amortized over the average remaining service period of active plan participants. In conjunction with the freeze of the pension plans on December 31, 2012, all participants are now considered inactive under applicable accounting guidance for determining the appropriate period for prospective amortization of actuarial gains and losses. Thus, effective January 1, 2013, FHN changed the amortization term for actuarial gains and losses from the estimated average remaining service period of active employees to the estimated average remaining life expectancy of the remaining participants. This extension of the amortization period significantly lowers annual pension expense.

Savings plan. FHN provides all qualifying full-time employees with the opportunity to participate in the FHN tax qualified 401(k) savings plan. The qualified plan allows employees to defer receipt of earned salary, up to tax law limits, on a tax-advantaged basis. Accounts, which are held in trust, may be invested in a wide range of mutual funds and in FHN common stock. Up to tax law limits, in 2012 FHN provided a 50 percent match for the first 6 percent of salary deferred. The match rate increased to 100 percent for the first 6 percent of salary deferred beginning in 2013 when benefits under the pension plans became frozen. Through a non-qualified savings restoration plan, starting in 2013 FHN provides a restorative benefit to certain highly-compensated employees who participate in the savings plan and whose contribution elections are capped by tax limitations.

Employer Non-Elective Contribution (ENEC) Program. The ENEC program is a feature of the FHN savings plan. Prior to 2013 it was provided only to employees not eligible for the pension plan. After 2012 it is available only to employees not participating in a regular bonus plan. With the ENEC program, FHN generally makes contributions to eligible employees savings plan accounts based upon company performance. Contribution amounts are a percentage of each employee s base salary (as defined in the savings plan) earned the prior year. FHN contributed $1.5 million for the plan in 2012 related to the 2011 plan year, and FHN contributed $1.7 million for the plan in 2013 related to the 2012 plan year. All contributions made to eligible employees savings plan accounts in relation to the ENEC program are invested in company stock. With the increased match in the savings plan, FHN does not anticipate making contributions under the ENEC related to the 2013 plan year.

Other employee benefits. FHN provides postretirement life insurance benefits to certain employees and also provides postretirement medical insurance to retirement-eligible employees. The postretirement medical plan is contributory with retiree contributions adjusted annually and is based on criteria that are a combination of the employee s age and years of service. For any employee retiring on or after January 1, 1995, FHN contributes a fixed amount based on years of service and age at the time of retirement. FHN s postretirement benefits include prescription drug benefits. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Act) introduced a prescription drug benefit under Medicare Part D as well as a federal subsidy to sponsors of retiree health care that provide a benefit that is actuarially equivalent to Medicare Part D. FHN currently anticipates receiving a prescription drug subsidy under the Act through 2013. In third quarter 2013, FHN notified participants of revisions to the employee medical plan effective January 1, 2014, the effects of which are being prospectively amortized beginning in third quarter 2013.

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Note 11 Pension, Savings, and Other Employee Benefits (Continued)

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

	Pension Benefits		Other Benefits	
(Dollars in thousands)	**2013**	2012	**2013**	2012
Components of net periodic benefit cost				
Service cost	**$ (77)**	$ 2,453	**$ 114**	$ 102
Interest cost	**8,097**	8,191	**505**	612
Expected return on plan assets	**(8,756)**	(9,967)	**(199)**	(225)
Amortization of unrecognized:				
Transition (asset)/obligation				184
Prior service cost/(credit)	**89**	100	**(25)**	(3)
Actuarial (gain)/loss	**2,585**	9,351	**(106)**	(60)
Net periodic benefit cost	**1,938**	10,128	**289**	610
ASC 715 settlement expense		1,231		
Total periodic benefit costs	**$ 1,938**	$ 11,359	**$ 289**	$ 610

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

	Pension Benefits		Other Benefits	
(Dollars in thousands)	**2013**	2012	**2013**	2012
Components of net periodic benefit cost				
Service cost	**$ 47**	$ 11,156	**$ 382**	$ 350
Interest cost	**24,271**	24,780	**1,601**	1,724
Expected return on plan assets	**(26,210)**	(29,860)	**(593)**	(686)
Amortization of unrecognized:				
Transition (asset)/obligation				552
Prior service cost/(credit)	**265**	299	**(9)**	(7)
Actuarial (gain)/loss	**7,374**	26,999	**(72)**	(366)
Net periodic benefit cost	**5,747**	33,374	**1,309**	1,567
ASC 715 settlement expense	**370**	1,231		
Total periodic benefit costs	**$ 6,117**	$ 34,605	**$ 1,309**	$ 1,567

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Note 12 Business Segment Information

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2013**	2012	**2013**	2012
Consolidated				
Net interest income	**$ 158,838**	$ 173,465	**$ 480,239**	$ 518,069
Provision for loan losses	**10,000**	40,000	**40,000**	63,000
Noninterest income	**150,475**	163,538	**449,534**	524,886
Noninterest expense	**433,556**	263,169	**901,504**	1,112,340
Income/(loss) before income taxes	**(134,243)**	33,834	**(11,731)**	(132,385)
Provision/(benefit) for income taxes	**(31,094)**	5,260	**1,644**	(72,348)
Income/(loss) from continuing operations	**(103,149)**	28,574	**(13,375)**	(60,037)
Income/(loss) from discontinued operations, net of tax	**123**	108	**554**	160
Net income/(loss)	**$ (103,026)**	$ 28,682	**$ (12,821)**	$ (59,877)
Average assets	**$ 24,192,606**	$ 25,089,754	**$ 24,619,958**	$ 25,101,544

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Note 12 Business Segment Information (Continued)

(Dollars in thousands)	Three Months Ended September 30 **2013**	2012	Nine Months Ended September 30 **2013**	2012
Regional Banking				
Net interest income	**$ 148,511**	$ 151,136	**$ 441,903**	$ 447,248
Provision/(provision credit) for loan losses	**5,159**	2,927	**15,875**	329
Noninterest income	**63,884**	64,235	**184,928**	189,324
Noninterest expense	**131,438**	141,576	**390,723**	425,480
Income/(loss) before income taxes	**75,798**	70,868	**220,233**	210,763
Provision/(benefit) for income taxes	**27,359**	25,727	**79,510**	76,509
Net income/(loss)	**$ 48,439**	$ 45,141	**$ 140,723**	$ 134,254
Average assets	**$ 12,922,737**	$ 12,935,133	**$ 12,939,436**	$ 12,509,334
Capital Markets				
Net interest income	**$ 3,756**	$ 4,753	**$ 11,687**	$ 16,041
Noninterest income	**64,115**	80,817	**208,926**	262,560
Noninterest expense	**58,036**	64,602	**179,631**	205,844
Income/(loss) before income taxes	**9,835**	20,968	**40,982**	72,757
Provision/(benefit) for income taxes	**3,703**	7,899	**15,432**	27,540
Net income/(loss)	**$ 6,132**	$ 13,069	**$ 25,550**	$ 45,217
Average assets	**$ 2,116,415**	$ 2,232,047	**$ 2,342,728**	$ 2,322,656
Corporate				
Net interest income/(expense)	**$ (10,333)**	$ (6,096)	**$ (28,917)**	$ (17,820)
Noninterest income	**6,558**	7,904	**18,224**	20,991
Noninterest expense	**21,584**	21,538	**56,239**	63,058
Income/(loss) before income taxes	**(25,359)**	(19,730)	**(66,932)**	(59,887)
Provision/(benefit) for income taxes	**(16,024)**	(13,632)	**(42,743)**	(39,332)
Net income/(loss)	**$ (9,335)**	$ (6,098)	**$ (24,189)**	$ (20,555)
Average assets	**$ 5,166,039**	$ 5,149,235	**$ 5,162,727**	$ 5,289,352
Non-Strategic				
Net interest income	**$ 16,904**	$ 23,672	**$ 55,566**	$ 72,600
Provision for loan losses	**4,841**	37,073	**24,125**	62,671
Noninterest income	**15,918**	10,582	**37,456**	52,011
Noninterest expense	**222,498**	35,453	**274,911**	417,958
Income/(loss) before income taxes	**(194,517)**	(38,272)	**(206,014)**	(356,018)
Provision/(benefit) for income taxes	**(46,132)**	(14,734)	**(50,555)**	(137,065)
Income/(loss) from continuing operations	**(148,385)**	(23,538)	**(155,459)**	(218,953)
Income/(loss) from discontinued operations, net of tax	**123**	108	**554**	160

Net income/(loss)	**$ (148,262)**	$ (23,430)	**$ (154,905)**	$ (218,793)
Average assets	**$ 3,987,415**	$ 4,773,339	**$ 4,175,067**	$ 4,980,202

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

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Note 13 Loan Sales and Securitizations

Prior to 2009, FHN utilized loan sales and securitizations as a significant source of liquidity for its mortgage banking operations. FHN no longer retains financial interests in loans it transfers to third parties. During the three and nine months ended September 30, 2013 and 2012, loan sale activity was not material.

Retained Interests

Interests retained from prior loan sales, including GSE securitizations, typically included MSR, excess interest (structured as interest-only (IO) strips), and principal-only (PO) strips. Excess interest represents rights to receive interest from serviced assets that exceed contractually specified rates. PO strips are principal cash flow tranches. MSR were initially valued at fair value and the remaining retained interests were initially valued by allocating the remaining cost basis of the loan between the security or loan sold and the remaining retained interests based on their relative fair values at the time of sale or securitization.

In certain cases, FHN continues to service and receive servicing fees related to the transferred loans. During third quarter 2013 and 2012, FHN received annual servicing fees approximating .29 percent of the outstanding balance of underlying single-family residential mortgage loans and .34 percent inclusive of income related to excess interest. In third quarters 2013 and 2012, FHN received annual servicing fees approximating .50 percent of the outstanding balance of underlying loans for HELOC and home equity loans transferred. MSR related to loans transferred and serviced by FHN, as well as MSR related to loans serviced by FHN and transferred by others, are discussed further in Note 5 Mortgage Servicing Rights.

The sensitivity of the fair value of all retained or purchased MSR to immediate 10 percent and 20 percent adverse changes in assumptions on September 30, 2013 and 2012, are as follows:

	September 30, 2013			September 30, 2012		
(Dollars in thousands except for annual cost to service)	**First Liens**	**Second Liens**	**HELOC**	First Liens	Second Liens	HELOC
Fair value of retained interests	**$ 114,017**	**$ 166**	**$ 2,503**	$ 117,440	$ 205	$ 2,892
Weighted average life (in years)	**4.4**	**3.5**	**3.4**	4.0	2.9	2.9
Annual prepayment rate	**18.7%**	**31.4%**	**31.7 %**	21.2%	26.0%	26.7%
Impact on fair value of 10% adverse change	**$ (5,572)**	**$ (10)**	**$ (130)**	$ (6,261)	$ (13)	$ (355)
Impact on fair value of 20% adverse change	**(10,637)**	**(20)**	**(250)**	(11,953)	(25)	(683)
Annual discount rate on servicing cash flows	**8.4%**	**14.0%**	**18.0 %**	11.8%	14.0%	18.0%
Impact on fair value of 10% adverse change	**$ (2,675)**	**$ (4)**	**$ (76)**	$ (3,253)	$ (6)	$ (191)
Impact on fair value of 20% adverse change	**(5,221)**	**(9)**	**(148)**	(6,314)	(11)	(370)
Annual cost to service (per loan) (a)	**$ 119**	**$ 50**	**$ 50**	$ 116	$ 50	$ 50
Impact on fair value of 10% adverse change	**(2,684)**	**(4)**	**(39)**	(2,822)	(5)	(96)
Impact on fair value of 20% adverse change	**(5,352)**	**(8)**	**(78)**	(5,625)	(9)	(193)
Annual earnings on escrow	**1.4%**			1.4%		
Impact on fair value of 10% adverse change	**$ (1,152)**			$ (631)		
Impact on fair value of 20% adverse change	**(2,304)**			(1,263)		

(a) Amounts represent market participant based assumptions.

The sensitivity of the fair value of other retained interests to immediate 10 percent and 20 percent adverse changes in assumptions on September 30, 2013 and 2012, are as follows:

	September 30, 2013		September 30, 2012	
(Dollars in thousands)	**Excess Interest IO**	**Certificated PO**	Excess Interest IO	Certificated PO
Fair value of retained interests	**$ 10,618**	**$ 5,096**	$ 13,739	$ 5,462

Weighted average life (in years)	**4.4**	**1.9**	3.9	1.9
Annual prepayment rate	**16.8%**	**41.9%**	19.1%	49.5%
Impact on fair value of 10% adverse change	**$ (476)**	**$ (225)**	$ (618)	$ (304)
Impact on fair value of 20% adverse change	**(915)**	**(474)**	(1,189)	(640)
Annual discount rate on residual cash flows	**9.5%**	**NM**	13.3%	NM
Impact on fair value of 10% adverse change	**$ (343)**	**NM**	$ (504)	NM
Impact on fair value of 20% adverse change	**(660)**	**NM**	(968)	NM

NM - Not meaningful

These sensitivities are hypothetical and should not be considered predictive of future performance. As the figures indicate, changes in fair value based on a 10 percent variation in assumptions cannot necessarily be extrapolated because the relationship between the change in assumption and the change in fair value may not be linear. Also, the effect on the fair value of the retained interest caused by a particular assumption variation is calculated independently from all other assumption changes. In reality, changes in one factor may result in changes in another, which might magnify or mitigate the sensitivities. Furthermore, the estimated fair values, as disclosed, should not be considered indicative of future earnings on these assets.

Note 13 Loan Sales and Securitizations (Continued)

Prepayment rates and credit spreads (part of the discount rate) are significant unobservable inputs used in the fair value measurement of FHN s MSR, principal only strips and excess interest IO. Cost to service and earnings on escrow are additional unobservable inputs included in the valuation of MSR. Increases in prepayment rates, credit spreads and costs to service in isolation would result in significantly lower fair value measurements for the associated assets. Conversely, decreases in prepayment rates, credit spreads and costs to service in isolation would result in significantly higher fair value measurements for the associated assets. An increase/(decrease) in earnings on escrow in isolation would be accompanied by an increase/(decrease) in the value of the related MSR. Generally, when market interest rates decline and other factors favorable to prepayments occur, there is a corresponding increase in prepayment rates as customers are expected to refinance existing mortgages under more favorable interest rate terms. Generally, changes in discount rates directionally mirror the changes in market interest rates. In third quarter 2013, FHN agreed to sell substantially all its remaining legacy mortgage servicing. FHN used the price in the definitive agreement, as adjusted for the portion of pricing that was not specific to the MSR and excess interest, as a third-party pricing source in the valuation of these assets as of September 30, 2013.

The MSR Hedging Working Group reviews the overall assessment of the estimated fair value of MSR and excess interests weekly and is responsible for approving the critical assumptions used by management to determine the estimated fair value of FHN s retained interests. In addition, this working group reviews the source of significant changes to the carrying values each quarter and was responsible for hedges and approving hedging strategies during periods when the MSR was hedged. Hedges were terminated upon execution of the definitive agreement to sell servicing.

FHN also engages in a process referred to as price discovery on a quarterly basis to assess the reasonableness of the estimated fair value of retained interests. Price discovery is conducted through a process of obtaining the following information: (1) quarterly informal (and an annual formal) valuation of the servicing portfolio by prominent independent mortgage-servicing brokers and (2) a collection of surveys and benchmarking data made available by independent third parties that include peer participants in the mortgage banking business. Although there is no single source of market information that can be relied upon to assess the fair value of MSR or excess interests, FHN reviews all information obtained during price discovery to determine whether the estimated fair value of MSR is reasonable when compared to market information. FHN determined that the MSR and excess interests valuations and assumptions in third quarters 2013 and 2012 were reasonable based on the price discovery process.

For the three and nine months ended September 30, 2013 and 2012, cash flows received and paid related to loan sales and securitizations were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2013**	2012	**2013**	2012
Proceeds from initial sales	**$**	$ 77,297	**$ 10,843**	$ 178,045
Servicing fees retained (a)	**11,261**	14,262	**36,542**	47,488
Purchases of GNMA guaranteed mortgages	**17,797**	22,434	**88,652**	85,149
Purchases of previously transferred financial assets (b) (c)	**41,916**	191,318	**266,266**	333,236
Other cash flows received on retained interests	**1,260**	1,696	**4,088**	6,915

(a) Includes servicing fees on MSR associated with loan sales and purchased MSR.
(b) Includes repurchases of delinquent and performing loans, foreclosed assets, and make-whole payments for economic losses incurred by purchaser. Also includes buyouts from GSEs in order to facilitate foreclosures.
(c) Nine months ended September 30, 2013, and three and nine months ended September 30, 2012, includes $74.7 million and $99.3 million, respectively, of cash paid related to clean-up calls exercised by FHN.

The principal amount of loans transferred through loan sales and securitizations and other loans managed with them, the principal amount of delinquent loans, and the net credit losses during the three and nine months ended September 30, 2013 and 2012, are as follows:

	Principal Amount of Residential Real Estate Loans (a) (b) (c)		Net Credit Losses (c)			
	September 30		Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2013**	2012	**2013**	2012	**2013**	2012
Total loans managed or transferred	**$ 13,016,536**	$ 15,889,548	**$ 47,832**	$ 123,586	**$ 185,443**	$ 345,064

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

(a) Amounts represent real estate residential loans in FHN s portfolio, held-for-sale, and loans that have been transferred in proprietary securitizations and whole loan sales in which FHN has a retained interest other than servicing rights. Also includes $4.4 billion and $6.3 billion of loans transferred to GSEs with any type of retained interest on September 30, 2013 and 2012, respectively.

(b) On September 30, 2013 and 2012, includes $.7 billion where the principal amount is 90 days or more past due or nonaccrual. Included in these amounts are $41.9 million and $35.4 million of GNMA guaranteed mortgages on September 30, 2013 and 2012, respectively.

(c) No delinquency or net credit loss data is provided for the loans transferred to FNMA or FHLMC because these agencies retain credit risk. See Note 10 Contingencies and Other Disclosures for discussion related to repurchase obligations for loans transferred to GSEs or private investors.

Note 14 Variable Interest Entities

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

Consolidated Variable Interest Entities

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

Included in the September 30, 2013 balance of consolidated proprietary residential mortgage securitizations is a HELOC securitization trust that has entered a rapid amortization period and for which FHN is obligated to provide subordinated funding. During this period, cash payments from borrowers are accumulated to repay outstanding debt securities while FHN continues to make advances to borrowers when they draw on their lines of credit. FHN then transfers the newly generated receivables into the securitization trust and is reimbursed only after other parties in the securitization have received all of the cash flows to which they are entitled. If loan losses requiring draws on the related monoline insurers policies, which protect bondholders in the securitization, exceed a certain level, FHN may not receive reimbursement for all of the funds advanced to borrowers, as the senior bondholders and the monoline insurers typically have priority for repayment. This securitization trust is currently consolidated by FHN due to FHN s status as the Master Servicer for the securitization and the retention of a significant residual interest. Consistent with the consolidated nature of this trust, amounts funded from monoline insurance policies are considered as additional restricted term borrowings in FHN s Consolidated Condensed Statements of Condition.

In first quarter 2012, FHN agreed with the monoline insurers to relinquish its status as Master Servicer for two of FHN s proprietary consumer loan securitizations. Accordingly, these trusts were de-consolidated prospectively from the time of the agreement. In 2012, FHN completed cleanup calls on four previously consolidated on-balance sheet consumer loan securitizations and the associated trusts were extinguished.

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

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Note 14 Variable Interest Entities (Continued)

The following table summarizes VIEs consolidated by FHN as of September 30, 2013 and 2012:

	September 30, 2013		September 30, 2012	
(Dollars in thousands)	**On-Balance Sheet Consumer Loan Securitizations Carrying Value**	**Rabbi Trusts Used for Deferred Compensation Plans Carrying Value**	On-Balance Sheet Consumer Loan Securitizations Carrying Value	Rabbi Trusts Used for Deferred Compensation Plans Carrying Value
Assets:				
Cash and due from banks	**$ 1,494**	**N/A**	$ 624	N/A
Loans, net of unearned income	**104,052**	**N/A**	121,959	N/A
Less: Allowance for loan losses	**3,217**	**N/A**	4,384	N/A
Total net loans	**100,835**	**N/A**	117,575	N/A
Other assets	**1,435**	**$ 63,238**	1,907	$ 61,409
Total assets	**$ 103,764**	**$ 63,238**	$ 120,106	$ 61,409
Liabilities:				
Term borrowings	**$ 93,700**	**N/A**	$ 113,342	N/A
Other liabilities	**19**	**$ 49,469**	16	$ 49,579
Total liabilities	**$ 93,719**	**$ 49,469**	$ 113,358	$ 49,579

Nonconsolidated Variable Interest Entities

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

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

performance and the managing members are exposed to all losses beyond FTNMC s initial capital contributions.

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

On-Balance Sheet Trust Preferred Securitization. In 2007, FTBNA executed a securitization of certain small issuer trust preferreds for which the underlying trust meets the definition of a VIE as the holders of the equity investment at risk do not have the power through voting rights, or similar rights, to direct the activities that most significantly impact the entity s economic performance.

Note 14 Variable Interest Entities (Continued)

FTBNA could potentially receive benefits or absorb losses that are significant to the trust based on the size and priority of the interests it retained in the securities issued by the trust. However, since FTBNA did not retain servicing or other decision making rights, FTBNA is not the primary beneficiary as it does not have the power to direct the activities that most significantly impact the trust s economic performance. Accordingly, FTBNA has accounted for the funds received through the securitization as a term borrowing in its Consolidated Condensed Statements of Condition. FTBNA has no contractual requirements to provide financial support to the trust.

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

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

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

In relation to certain agency securitizations, FHN purchased the servicing rights on securitized loans from the loan originator and holds other retained interests. Based on their restrictive nature, the trusts meet the definition of a VIE since the holders of the equity investments at risk do not have the power through voting rights, or similar rights, to direct the activities that most significantly impact the trusts economic performance. As the agencies serve as Master Servicer for the securitized loans and hold rights consistent with their guarantees on the securities issued, they have the power to direct the activities that most significantly impact the trusts economic performance. Thus, FHN is not considered the primary beneficiary even in situations where it could potentially receive benefits or absorb losses that are significant to the trusts. FHN has no contractual requirements to provide financial support to the trusts. Upon closing of the servicing sales agreed to in third quarter 2013, FHN s interests in these securitizations will decline substantially.

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

Holdings & Short Positions in Agency Mortgage-Backed Securities. FHN holds securities issued by various agency securitization trusts. Based on their restrictive nature, the trusts meet the definition of a VIE since the holders of the equity investments at risk do not have the power through voting rights, or similar rights, to direct the activities that most significantly impact the entities economic performance. FHN could potentially receive benefits or absorb losses that are significant to the trusts based on the nature of the trusts activities and the size of FHN s

holdings. However, FHN is solely a holder of the trusts securities and does not have the power to direct the activities that most significantly impact the trusts economic performance, and is not considered the primary beneficiary of the trusts. FHN has no contractual requirements to provide financial support to the trusts.

Note 14 Variable Interest Entities (Continued)

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

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

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

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

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

Includes $72.9 million and $31.8 million classified as MSR and $7.3 million and $8.4 million classified as Trading securities related to proprietary and agency residential mortgage securitizations, respectively. Aggregate servicing advances of $289.1 million are classified as Other assets.

(h) Includes $257.0 million classified as Loans, net of unearned income which are offset by $235.9 million classified as Term borrowings.

(i) Includes $498.3 million classified as Trading securities and $2.9 billion classified as Securities available-for-sale.

(j) Maximum loss exposure represents $70.2 million of current receivables and $2.9 million of contractual funding commitments on loans related to commercial borrowers involved in a troubled debt restructuring.

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

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Note 14 Variable Interest Entities (Continued)

The following table summarizes FHN s nonconsolidated VIEs as of September 30, 2012:

(Dollars in thousands)	Maximum Loss Exposure	Liability Recognized	Classification
Type			
Low income housing partnerships (a) (b)	$ 57,030	$	Other assets
New market tax credit LLCs (b) (c)	20,312		Other assets
Small issuer trust preferred holdings (d)	446,045		Loans, net of unearned income
On-balance sheet trust preferred securitization	60,662	53,511	(e)
Proprietary trust preferred issuances (f)	N/A	206,186	Term borrowings
Proprietary and agency residential mortgage securitizations	425,741		(g)
On-balance sheet consumer loan securitizations	6,654	302,633	(h)
Holdings of agency mortgage-backed securities (d)	3,462,956		(i)
Short positions in agency mortgage-backed securities (f)	N/A	13,221	Trading liabilities
Commercial loan troubled debt restructurings (j) (k)	95,681		Loans, net of unearned income
Managed discretionary trusts (f)	N/A	N/A	N/A

(a) Maximum loss exposure represents $56.5 million of current investments and $.5 million of contractual funding commitments. Only the current investment amount is included in Other assets.
(b) A liability is not recognized as investments are written down over the life of the related tax credit.
(c) Maximum loss exposure represents current investment balance. Of the initial investment $15.3 million was funded through loans from community development enterprises.
(d) Maximum loss exposure represents the value of current investments. A liability is not recognized as FHN is solely a holder of the trusts securities.
(e) Includes $112.5 million classified as Loans, net of unearned income, and $1.7 million classified as Trading securities which are offset by $53.7 million classified as Term borrowings.
(f) No exposure to loss due to the nature of FHN s involvement.
(g) Includes $71.5 million and $34.4 million classified as MSR and $8.4 million and $10.8 million classified as Trading securities related to proprietary and agency residential mortgage securitizations, respectively. Aggregate servicing advances of $300.6 million are classified as Other assets.
(h) Includes $309.3 million as Loans, net of unearned income which are offset by $302.6 million classified as Term borrowings.
(i) Includes $636.8 million classified as Trading securities and $2.8 billion classified as Securities available-for-sale.
(j) Maximum loss exposure represents $94.3 million of current receivables and $1.4 million of contractual funding commitments on loans related to commercial borrowers involved in a troubled debt restructuring.
(k) A liability is not recognized as the loans are the only variable interests held in the troubled commercial borrowers operations.

See Note 10 Contingencies and Other Disclosures for information regarding FHN s repurchase exposure for claims that FHN breached its standard representations and warranties made in connection with the sale of loans to proprietary and agency residential mortgage securitization trusts.

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Note 15 Derivatives

In the normal course of business, FHN utilizes various financial instruments (including derivative contracts and credit-related agreements) through its legacy mortgage servicing operations, capital markets, and risk management operations, 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 as required by GAAP. The contractual or notional amounts of these financial instruments do not necessarily represent credit or market risk. However, they can be used to measure the extent of involvement in various types of financial instruments. Controls and monitoring procedures for these instruments have been established and are routinely reevaluated. The Asset/Liability Committee (ALCO) monitors the usage and effectiveness of these financial instruments.

Credit risk represents the potential loss that may occur if a party to a transaction fails to perform according to the terms of the contract. The measure of credit exposure is the replacement cost of contracts with a positive fair value. FHN manages credit risk by entering into financial instrument transactions through national exchanges, primary dealers or approved counterparties, and using mutual margining and master netting agreements whenever possible to limit potential exposure. FHN also maintains collateral posting requirements with certain counterparties to limit credit risk. On September 30, 2013 and 2012, respectively, FHN had $111.7 million and $197.4 million of cash receivables and $90.1 million and $153.3 million of cash payables related to collateral posting under master netting arrangements, inclusive of collateral posted related to contracts with adjustable collateral posting thresholds and over collateralized positions, with derivative counterparties. With exchange-traded contracts, the credit risk is limited to the clearinghouse used. For non-exchange traded instruments, credit risk may occur when there is a gain in the fair value of the financial instrument and the counterparty fails to perform according to the terms of the contract and/or when the collateral proves to be of insufficient value. See additional discussion regarding master netting agreements and collateral posting requirements later in this note under the heading Master Netting and Similar Agreements. Market risk represents the potential loss due to the decrease in the value of a financial instrument caused primarily by changes in interest rates, 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 as a risk management tool. Where contracts have been created for customers, FHN enters into transactions with dealers to offset its risk exposure. Contracts with dealers that require central clearing are novated to a clearing agent who becomes FHN s counterparty. Derivatives are also used as a risk management tool to hedge FHN s exposure to changes in interest rates or other defined market risks.

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

Legacy Mortgage Servicing Operations

Retained Interests

FHN revalues MSR to current fair value each month with changes in fair value included in servicing income in Mortgage banking noninterest income on the Consolidated Condensed Statements of Income. In third quarter 2013, in conjunction with the agreement to sell legacy mortgage servicing, FHN removed all hedges associated with MSR and interest-only securities. FHN hedged 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. FHN entered into interest rate contracts (potentially including swaps, swaptions, and mortgage forward purchase contracts) to hedge against the effects of changes in fair value of its MSR. Substantially all capitalized MSR were hedged for economic purposes.

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

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Note 15 Derivatives (Continued)

The following table summarizes FHN s derivatives associated with legacy mortgage servicing activities for the three and nine months ended September 30, 2013 and 2012:

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

				Gains/(Losses)	
(Dollars in thousands)	**Notional**	**Assets**	**Liabilities**	**Three Months Ended September 30, 2012**	**Nine Months Ended September 30, 2012**
Retained Interests Hedging					
Hedging Instruments:					
Forwards and Futures	$ 20,000	$ 542	$	$ 207	$ 9,839
Interest Rate Swaps and Swaptions	$ 1,837,600	$ 6,693	$ 4,282	$ 4,580	$ 5,498
Hedged Items:					
Mortgage Servicing Rights	N/A	$ 117,522	N/A	$ (1,279)	$ (379)
Other Retained Interests	N/A	$ 19,201	N/A	$ 978	$ 425

Capital Markets

Capital markets trades U.S. Treasury, U.S. Agency, mortgage-backed, corporate and municipal fixed income securities, and other securities principally for distribution to customers. When these securities settle on a delayed basis, they are considered forward contracts. Capital markets also enters into interest rate contracts, including caps, swaps, and floors, for its customers. In addition, capital markets enters into futures and option contracts to economically hedge interest rate risk associated with a portion of its securities inventory. These transactions are measured at fair value, with changes in fair value recognized currently in Capital markets noninterest income. Related assets and liabilities are recorded on the Consolidated Condensed Statements of Condition as Derivative assets and Derivative liabilities. The FTN Financial Risk Committee and the Credit Risk Management Committee collaborate to mitigate credit risk related to these transactions. Credit risk is controlled through credit approvals, risk control limits, and ongoing monitoring procedures. Total trading revenues were $54.4 million and $74.5 million for the three months ended September 30, 2013 and 2012, respectively, and $180.9 million and $242.0 million for the nine months ended September 30, 2013 and 2012, respectively. Total revenues are inclusive of both derivative and non-derivative financial instruments, and are included in Capital markets noninterest income.

The following table summarizes FHN s derivatives associated with capital markets trading activities as of September 30, 2013 and 2012:

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

	September 30, 2012		
(Dollars in thousands)	**Notional**	**Assets**	**Liabilities**
Customer Interest Rate Contracts	$ 1,439,306	$ 137,958	$ 923
Offsetting Upstream Interest Rate Contracts	1,439,306	923	137,958
Option Contracts Purchased	5,000	1	
Forwards and Futures Purchased	4,361,583	1,173	10,662
Forwards and Futures Sold	4,706,866	13,147	1,762

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Note 15 Derivatives (Continued)

Interest Rate Risk Management

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

FHN has entered into pay floating, receive fixed interest rate swaps to hedge the interest rate risk of certain term borrowings totaling $554.0 million and $904.0 million on September 30, 2013 and 2012, respectively. These swaps have been accounted for as fair value hedges under the shortcut method. The balance sheet amount of these swaps was $46.1 million and $81.3 million in Derivative assets on September 30, 2013 and 2012, respectively.

FHN has designated a derivative transaction in a hedging strategy to manage interest rate risk on its $500 million noncallable senior debt maturing in December 2015. This derivative qualifies for hedge accounting under ASC 815-20 using the long-haul method. FHN entered into a pay floating, receive fixed interest rate swap to hedge the interest rate risk on this debt. The balance sheet amount of this swap was $20.0 million and $29.5 million in Derivative assets as of September 30, 2013 and 2012, respectively. There was no ineffectiveness related to this hedge.

FHN designates derivative transactions in hedging strategies to manage interest rate risk on subordinated debt related to its trust preferred securities. These qualify for hedge accounting under ASC 815-20 using the long-haul method. FHN hedges the interest rate risk of the subordinated debt totaling $200 million using pay floating, receive fixed interest rate swaps. The balance sheet amount of these swaps was $19.6 million in Derivative liabilities on September 30, 2013 and $.4 million in Derivative assets on September 30, 2012. There was no ineffectiveness related to these hedges. In April and October 2012, the counterparty called the swaps associated with the $200 million of subordinated debt. FHN discontinued hedge accounting and the cumulative basis adjustments to the associated subordinated debt are being amortized as an adjustment to interest expense over its remaining term. FHN entered into a new interest rate swap to hedge the interest rate risk associated with this debt.

The following tables summarize FHN s derivatives associated with interest rate risk management activities for the three and nine months ended September 30, 2013 and 2012:

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

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Note 15 Derivatives (Continued)

(Dollars in thousands)	Notional	September 30, 2012 Assets	Liabilities	Gains/(Losses) Three Months Ended September 30, 2012	Gains/(Losses) Nine Months Ended September 30, 2012
Customer Interest Rate Contracts Hedging					
Hedging Instruments and Hedged Items:					
Customer Interest Rate Contracts (a)	$ 975,213	$ 61,984	$ 362	$ (3,971)	$ (7,554)
Offsetting Upstream Interest Rate Contracts (a)	$ 975,213	$ 362	$ 63,384	$ 4,071	$ 8,254
Debt Hedging					
Hedging Instruments:					
Interest Rate Swaps (b)	$ 1,604,000	$ 111,240	$	$ (2,481)	$ (15,642)
Hedged Items:					
Term Borrowings (b)	N/A	N/A	$ 1,604,000(c)	$ 2,481(d)	$ 15,642(d)

(a) Gains/losses included in the Other expense section of the Consolidated Condensed Statements of Income.
(b) Gains/losses included in the All other income and commissions section of the Consolidated Condensed Statements of Income.
(c) Represents par value of term borrowings being hedged.
(d) Represents gains and losses attributable to changes in fair value due to interest rate risk as designated in ASC 815-20 hedging relationships.

FHN hedges held-to-maturity trust preferred loans with a principal balance of $6.5 million and $128.8 million as of September 30, 2013 and 2012, respectively, which have an initial fixed rate term of five years before conversion to a floating rate. FHN has entered into pay fixed, receive floating interest rate swaps to hedge the interest rate risk associated with this initial five-year term. These hedge relationships qualify as fair value hedges under ASC 815-20. The impact of these swaps was $1.1 million and $3.4 million in Derivative liabilities on the Consolidated Condensed Statements of Condition as of September 30, 2013 and 2012, respectively. Interest paid or received for these swaps was recognized as an adjustment of the interest income of the assets whose risk is being hedged. Basis adjustments remaining at the end of the hedge term are being amortized as an adjustment to interest income over the remaining life of the loans. Gains or losses are included in Other income and commissions on the Consolidated Condensed Statements of Income.

The following tables summarize FHN s derivative activities associated with held-to-maturity trust preferred loans for the three and nine months ended September 30, 2013 and 2012:

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

(Dollars in thousands)	September 30, 2012 Notional	Assets	Liabilities	Gains/(Losses) Three Months Ended September 30, 2012	Gains/(Losses) Nine Months Ended September 30, 2012
Loan Portfolio Hedging					
Hedging Instruments:					
Interest Rate Swaps	$ 128,750	N/A	$ 3,411	$ 1,625	$ 5,398
Hedged Items:					
Trust Preferred Loans (a)	N/A	$ 128,750(b)	N/A	$ (1,601)(c)	$ (5,356)(c)

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

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Note 15 Derivatives (Continued)

Other Derivatives

In conjunction with the sales of a portion of its Visa Class B shares, FHN and the purchaser entered into derivative transactions whereby FHN will make or receive cash payments whenever the conversion ratio of the Visa Class B shares into Visa Class A shares is adjusted. As of September 30, 2013, the derivative liabilities associated with the sales of Visa Class B shares were $2.7 million compared to $2.3 million as of September 30, 2012. See the Visa Matters section of Note 10 Contingencies and Other Disclosures for more information regarding FHN s Visa shares.

FHN utilizes cross currency swaps and cross currency interest rate swaps to economically hedge its exposure to foreign currency risk and interest rate risk associated with non-U.S. dollar denominated loans. As of September 30, 2013 and 2012, these loans were valued at $.6 million and $.7 million, respectively. As of September 30, 2013 and 2012, the balance sheet amount and the gains/losses associated with these derivatives were not material.

Master Netting and Similar Arrangements

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

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

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

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

The net fair value, determined by individual counterparty, of all derivative instruments with adjustable collateral posting thresholds was $144.5 million of assets and $110.3 million of liabilities on September 30, 2013, and $256.3 million of assets and $187.5 million of liabilities on September 30, 2012. As of September 30, 2013 and 2012, FHN had received collateral of $213.2 million and $288.8 million and posted collateral of $102.5 million and $188.2 million, respectively, in the normal course of business related to these agreements.

Certain agreements entered into prior to required central clearing also contain accelerated termination provisions, inclusive of the right of offset, if a counterparty s credit rating falls below a specified level. If a counterparty s debt rating (including FHN s and FTBNA s) were to fall below these minimums, these provisions would be triggered, and the counterparties could terminate the agreements and request immediate settlement of all derivative contracts under the agreements. The net fair value, determined by individual counterparty, of all derivative instruments with credit-risk-related contingent accelerated termination provisions was $144.5 million of assets and $27.1 million of liabilities on September 30, 2013, and $255.8 million of assets and $41.9 million of liabilities on September 30, 2012. As of September 30, 2013 and 2012, FHN had

received collateral of $213.2 million and $288.8 million and posted collateral of $24.4 million and $46.4 million, respectively, in the normal course of business related to these contracts.

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

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Note 15 Derivatives (Continued)

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

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

				Gross amounts not offset in the Statement of Condition		
(Dollars in thousands)	Gross amounts of recognized assets	Gross amounts offset in the Statement of Condition	Net amounts of assets presented in the Statement of Condition (a)	Derivative liabilities available for offset	Collateral Received	Net amount
Derivative assets:						
2013 (b)	**$ 198,238**	**$**	**$ 198,238**	**$ (36,770)**	**$ (161,468)**	**$**
2012 (b)	319,702		319,702	(20,218)	(273,730)	25,754

(a) Included in Derivative Assets on the Consolidated Condensed Statements of Condition. As of September 30, 2013 and 2012, $16.9 million and $14.3 million, respectively, of derivative assets (primarily capital markets forward contracts) have been excluded from these tables because they are generally not subject to master netting or similar agreements.

(b) 2013 is comprised entirely of interest rate derivative contracts. 2012 includes $319.2 million of interest rate derivative contracts and $.5 million of forwards and futures contracts.

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

				Gross amounts not offset in the Statement of Condition		
(Dollars in thousands)	Gross amounts of recognized liabilities	Gross amounts offset in the Statement of Condition	Net amounts of liabilities presented in the Statement of Condition (a)	Derivative assets available for offset	Collateral pledged	Net amount
Derivative liabilities:						
2013 (b)	**$ 153,403**	**$**	**$ 153,403**	**$ (36,770)**	**$ (109,079)**	**$ 7,554**
2012 (b)	210,320		210,320	(20,218)	(185,230)	4,872

(a)

Included in Derivative Liabilities on the Consolidated Condensed Statements of Condition. As of September 30, 2013 and 2012, $12.5 million and $14.8 million, respectively, of derivative liabilities (primarily capital markets forward contracts) have been excluded from these tables because they are generally not subject to master netting or similar agreements.

(b) 2013 and 2012 includes $153.4 million and $210.3 million, respectively, of interest rate derivative contracts.

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

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

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

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

				Gross amounts not offset in the Statement of Condition		
(Dollars in thousands)	Gross amounts of recognized assets	Gross amounts offset in the Statement of Condition	Net amounts of assets presented in the Statement of Condition	Offsetting securities sold under agreements to repurchase	Securities collateral (not recognized on FHN s Statement of Condition)	Net amount
Securities purchased under agreements to resell:						
2013	**$ 576,355**	**$**	**$ 576,355**	**$ (30,584)**	**$ (537,810)**	**$ 7,961**
2012	517,263		517,263	(2,068)	(509,707)	5,488

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

				Gross amounts not offset in the Statement of Condition		
(Dollars in thousands)	Gross amounts of recognized liabilities	Gross amounts offset in the Statement of Condition	Net amounts of liabilities presented in the Statement of Condition	Offsetting securities purchased under agreements to resell	Securities Collateral	Net amount
Securities sold under agreements to repurchase:						
2013	**$ 427,232**	**$**	**$ 427,232**	**$ (30,584)**	**$ (396,639)**	**$ 9**
2012	443,370		443,370	(2,068)	(441,273)	29

Note 17 Fair Value of Assets & Liabilities

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

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

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

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

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

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Note 17 Fair Value of Assets & Liabilities (Continued)

Recurring Fair Value Measurements

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

	September 30, 2013			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Trading securities capital markets:				
U.S. treasuries	$	$ 86,986	$	$ 86,986
Government agency issued MBS		407,876		407,876
Government agency issued CMO		90,420		90,420
Other U.S. government agencies		149,867		149,867
States and municipalities		17,828		17,828
Trading Loans		145,505		145,505
Corporate and other debt		427,559	5	427,564
Equity, mutual funds, and other		1,374		1,374
Total trading securities capital markets		1,327,415	5	1,327,420
Trading securities mortgage banking:				
Principal only			5,096	5,096
Interest only			10,618	10,618
Total trading securities mortgage banking			15,714	15,714
Loans held-for-sale			229,760	229,760
Securities available-for-sale:				
U.S. treasuries		39,996		39,996
Government agency issued MBS		875,452		875,452
Government agency issued CMO		2,025,121		2,025,121
Other U.S. government agencies			2,528	2,528
States and municipalities		13,655	1,500	15,155
Venture capital			4,300	4,300
Equity, mutual funds, and other	20,267			20,267
Total securities available-for-sale	20,267	2,954,224	8,328	2,982,819
Mortgage servicing rights			116,686	116,686
Other assets:				
Deferred compensation assets	23,193			23,193
Derivatives, forwards and futures	16,877			16,877
Derivatives, interest rate contracts		198,239		198,239
Total other assets	40,070	198,239		238,309
Total assets	$ 60,337	$ 4,479,878	$ 370,493	$ 4,910,708
Trading liabilities capital markets:				
U.S. treasuries	$	$ 312,315	$	$ 312,315
Government agency issued MBS		521		521

Government agency issued CMO		1,024		1,024
Other U.S. government agencies		30,253		30,253
States and municipalities		335		335
Corporate and other debt		237,953		237,953
Equity, mutual funds, and other		3,568		3,568
Total trading liabilities capital markets		585,969		585,969
Other short-term borrowings			11,715	11,715
Other liabilities:				
Derivatives, forwards and futures	9,770			9,770
Derivatives, interest rate contracts		153,402		153,402
Derivatives, other		1	2,745	2,746
Total other liabilities	9,770	153,403	2,745	165,918
Total liabilities	$ 9,770	$ 739,372	$ 14,460	$ 763,602

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Note 17 Fair Value of Assets & Liabilities (Continued)

The following table presents the balance of assets and liabilities measured at fair value on a recurring basis as of September 30, 2012:

	September 30, 2012			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Trading securities capital markets:				
U.S. treasuries	$	$ 124,722	$	$ 124,722
Government agency issued MBS		564,425		564,425
Government agency issued CMO		72,340		72,340
Other U.S. government agencies		82,736		82,736
States and municipalities		31,817		31,817
Corporate and other debt		308,309	5	308,314
Equity, mutual funds, and other		811		811
Total trading securities capital markets		1,185,160	5	1,185,165
Trading securities mortgage banking:				
Principal only		5,462		5,462
Interest only			13,739	13,739
Total trading securities mortgage banking		5,462	13,739	19,201
Loans held-for-sale		10,996	213,639	224,635
Securities available-for-sale:				
U.S. treasuries		54,996		54,996
Government agency issued MBS		1,271,450		1,271,450
Government agency issued CMO		1,554,741		1,554,741
Other U.S. government agencies			4,202	4,202
States and municipalities		16,470	1,500	17,970
Corporate and other debt	517			517
Venture capital			9,000	9,000
Equity, mutual funds, and other	13,277			13,277
Total securities available-for-sale	13,794	2,897,657	14,702	2,926,153
Mortgage servicing rights			120,537	120,537
Other assets:				
Deferred compensation assets	23,301			23,301
Derivatives, forwards and futures	14,862			14,862
Derivatives, interest rate contracts		319,163		319,163
Total other assets	38,163	319,163		357,326
Total assets	$ 51,957	$ 4,418,438	$ 362,622	$ 4,833,017
Trading liabilities capital markets:				
U.S. treasuries	$	$ 350,434	$	$ 350,434
Government agency issued MBS		5,125		5,125
Government agency issued CMO		8,096		8,096
Other U.S. government agencies		4,439		4,439

States and municipalities		1,109		1,109
Corporate and other debt		146,750		146,750
Equity, mutual funds, and other		1,017		1,017
Total trading liabilities capital markets		516,970		516,970
Other short-term borrowings			11,585	11,585
Other liabilities:				
Derivatives, forwards and futures	12,424			12,424
Derivatives, interest rate contracts		210,320		210,320
Derivatives, other			2,340	2,340
Total other liabilities	12,424	210,320	2,340	225,084
Total liabilities	$ 12,424	$ 727,290	$ 13,925	$ 753,639

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Note 17 Fair Value of Assets & Liabilities (Continued)

Changes in Recurring Level 3 Fair Value Measurements

The changes in Level 3 assets and liabilities measured at fair value for the three months ended September 30, 2013 and 2012, on a recurring basis are summarized as follows:

	Three Months Ended September 30, 2013						
			Securities available-for-sale		Mortgage		Other
(Dollars in thousands)	Trading securities	Loans held-for-sale	Investment portfolio	Venture Capital	servicing rights, net	Net derivative liabilities	short-term borrowings
Balance on July 1, 2013	$ 15,877	$ 235,080	$ 4,354	$ 4,300	$ 113,853	$ (2,195)	$ (12,349)
Total net gains/(losses) included in:							
Net income	1,944	(1,805)			8,932	(871)	634
Other comprehensive income /(loss)			(17)				
Purchases		12,338					
Issuances							
Sales							
Settlements	(2,102)	(11,390)	(309)		(6,099)	321	
Net transfers into/(out of) Level 3		(4,463)(c)					
Balance on September 30, 2013	$ 15,719	$ 229,760	$ 4,028	$ 4,300	$ 116,686	$ (2,745)	$ (11,715)
Net unrealized gains/(losses) included in net income	$ 1,540(a)	$ (1,805)(a)	$	$ (b)	$ 9,107(a)	$ (871)(d)	$ 634(a)

	Three Months Ended September 30, 2012						
			Securities available-for-sale		Mortgage		Other
(Dollars in thousands)	Trading securities	Loans held-for-sale	Investment portfolio	Venture Capital	servicing rights, net	Net derivative liabilities	short-term borrowings
Balance on July 1, 2012	$ 14,905	$ 214,560	$ 6,162	$ 9,000	$ 129,291	$ (3,505)	$ (12,439)
Total net gains/(losses) included in:							
Net income	1,068	(2,799)			(2,098)	10	854
Other comprehensive income /(loss)			(25)				
Purchases		23,561					
Issuances							
Sales							
Settlements	(2,229)	(11,107)	(435)		(6,656)	1,155	
Net transfers into/(out of) Level 3		(10,576)(c)					
Balance on September 30, 2012	$ 13,744	$ 213,639	$ 5,702	$ 9,000	$ 120,537	$ (2,340)	$ (11,585)
Net unrealized gains/(losses) included in net income	$ 707(a)	$ (2,799)(a)	$	$ (b)	$ (2,181)(a)	$ 10(d)	$ 854(a)

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

(a) Primarily included in mortgage banking income on the Consolidated Condensed Statements of Income.
(b) Represents recognized gains and losses attributable to venture capital investments classified within securities available-for-sale that are included in securities gains/(losses) in noninterest income.
(c) Transfers out of recurring level 3 balances reflect movements out of loans held-for-sale and into real estate acquired by foreclosure (level 3 nonrecurring).
(d) Included in Other expense.

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Note 17 Fair Value of Assets & Liabilities (Continued)

Changes in Recurring Level 3 Fair Value Measurements

The changes in Level 3 assets and liabilities measured at fair value for the nine months ended September 30, 2013 and 2012, on a recurring basis are summarized as follows:

	Nine Months Ended September 30, 2013						
			Securities available-for-sale		Mortgage		Other
(Dollars in thousands)	Trading securities	Loans held-for-sale	Investment portfolio	Venture Capital	servicing rights, net	Net derivative liabilities	short-term borrowings
Balance on January 1, 2013	$ 17,992	$ 221,094	$ 5,253	$ 4,300	$ 114,311	$ (2,175)	$ (11,156)
Total net gains/(losses) included in:							
Net income	4,474	(3,940)			20,267	(1,522)	(559)
Other comprehensive income /(loss)			(93)				
Purchases		49,847					
Issuances							
Sales							
Settlements	(6,747)	(25,990)	(1,132)		(17,892)	952	
Net transfers into/(out of) Level 3		(11,251)(c)					
Balance on September 30, 2013	$ 15,719	$ 229,760	$ 4,028	$ 4,300	$ 116,686	$ (2,745)	$ (11,715)
Net unrealized gains/(losses) included in net income	$ 3,127(a)	$ (3,940)(a)	$	$ (b)	$ 20,424(a)	$ (1,523)(d)	$ (559)(a)

	Nine Months Ended September 30, 2012						
			Securities available-for-sale		Mortgage		Other
(Dollars in thousands)	Trading securities	Loans held-for-sale	Investment portfolio	Venture Capital	servicing rights, net	Net derivative liabilities	short-term borrowings
Balance on January 1, 2012	$ 18,059	$ 210,487	$ 7,262	$ 12,179	$ 144,069	$ (11,820)	$ (14,833)
Total net gains/(losses) included in:							
Net income	2,847	(849)		5,071	(4,541)	(1,601)	3,248
Other comprehensive income /(loss)			(195)				
Purchases		41,313					
Issuances							
Sales				(8,250)			
Settlements	(7,162)	(21,733)	(1,365)		(18,991)	11,081	
Net transfers into/(out of) Level 3		(15,579)(c)					
Balance on September 30, 2012	$ 13,744	$ 213,639	$ 5,702	$ 9,000	$ 120,537	$ (2,340)	$ (11,585)
Net unrealized gains/(losses) included in net income	$ 1,595(a)	$ (849)(a)	$	$ (b)	$ (3,800)(a)	$ (1,601)(d)	$ 3,248(a)

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

(a) Primarily included in mortgage banking income on the Consolidated Condensed Statements of Income.
(b) Represents recognized gains and losses attributable to venture capital investments classified within securities available-for-sale that are included in securities gains/(losses) in noninterest income.
(c) Transfers out of recurring loans held-for-sale level 3 balances reflect movements out of loans held-for-sale and into real estate acquired by foreclosure (level 3 nonrecurring).
(d) Included in Other expense.

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Note 17 Fair Value of Assets & Liabilities (Continued)

In fourth quarter 2012, FHN determined that the level of market information on prepayment speeds and discount rates associated with its principal only trading securities had become more limited. In response, FHN increased its use of unobservable inputs and transferred these balances to Level 3.

Nonrecurring Fair Value Measurements

From time to time, FHN may be required to measure certain other financial assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of LOCOM accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis which were still held on the balance sheet at September 30, 2013 and 2012, respectively, the following tables provide the level of valuation assumptions used to determine each adjustment, the related carrying value, and the fair value adjustments recorded during the respective periods.

	Carrying value at September 30, 2013				Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
(Dollars in thousands)	Level 1	Level 2	Level 3	Total	Net gains/(losses)	Net gains/(losses)
Loans held-for-sale first mortgages	$	$	$ 9,632	$ 9,632	$ 364	$ 304
Loans, net of unearned income (a)			85,665	85,665	(1,177)	(3,154)
Real estate acquired by foreclosure (b)			50,030	50,030	(327)	(3,279)
Other assets (c)			69,115	69,115	(1,153)	(4,199)
					$ (2,293)	$ (10,328)

	Carrying value at September 30, 2012				Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
(Dollars in thousands)	Level 1	Level 2	Level 3	Total	Net gains/(losses)	Net gains/(losses)
Loans held-for-sale SBAs	$	$ 37,429	$	$ 37,429	$	$ 15
Loans held-for-sale first mortgages			13,467	13,467	(671)	(355)
Loans, net of unearned income (a)			128,626	128,626	(44,608)	(61,958)
Real estate acquired by foreclosure (b)			50,589	50,589	(2,732)	(7,873)
Other assets (c)			76,822	76,822	(3,201)	(6,405)
					$ (51,212)	$ (76,576)

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

In first quarter 2013 and third quarter 2012, FHN exercised clean-up calls on first lien mortgage proprietary securitization trusts. In accordance with accounting requirements, FHN initially recognized the associated loans at fair value. Fair value was primarily determined through reference to observable inputs, including current market prices for similar loans. Since these loans were from the 2003 vintage, adjustments were made for the higher yields associated with the loans in comparison to more currently originated loans being sold. This resulted in recognition of an immaterial premium for these transactions.

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Note 17 Fair Value of Assets & Liabilities (Continued)

Level 3 Measurements

The following tables provide information regarding the unobservable inputs utilized in determining the fair value of level 3 recurring and non-recurring measurements as of September 30, 2013 and 2012:

(Dollars in Thousands)

Level 3 Class	Fair Value at September 30, 2013	Valuation Techniques	Unobservable Input	Values Utilized
Trading securities mortgage	$ 15,714	Discounted cash flow	(a)	(a)
Loans held-for-sale mortgages	239,392	Discounted cash flow	Prepayment speeds	6% - 10%
			Credit spreads	2% - 4%
			Delinquency adjustment factor	15% - 25% added to credit spread
			Loss severity trends	50% - 60% of UPB
Venture capital investments	4,300	Industry comparables	Adjustment for minority interest and small business status	40% - 50% discount
		Discounted cash flow	Discount rate	25% - 30%
			Earnings capitalization rate	20% - 25%
Mortgage servicing rights	116,686	Discounted cash flow	(a)	(a)
Other short-term borrowings	11,715	Discounted cash flow	(b)	(b)
Derivative liabilities, other	2,745	Discounted cash flow	Visa covered litigation resolution amount	$4.4 billion - $5.0 billion
			Probability of resolution scenarios	10% - 50%
			Time until resolution	6 - 30 months
Loans, net of unearned income (c)	85,665	Appraisals from comparable properties	Marketability adjustments for specific properties	0% - 10% of appraisal
		Other collateral valuations	Borrowing base certificates adjustment	20% - 50% of gross value
			Financial Statements/Auction Values adjustment	0% - 25% of reported value
Real estate acquired by foreclosure (d)	50,030	Appraisals from comparable properties	Adjustment for value changes since appraisal	0% - 10% of appraisal
Other assets (e)	69,115	Discounted cash flow	Adjustments to current sales yields for specific properties	0% -15% adjustment to yield
		Appraisals from comparable properties	Marketability adjustments for specific properties	0% - 25% of appraisal

(a) The unobservable inputs for Principal-only and Interest-only trading securities and MSR are discussed in Note 13 Loan Sales and Securitizations.

(b) The inputs and associated ranges for Other short-term borrowings mirror those of the related MSR.

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

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

(e) Represents tax credit investments.

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Note 17 Fair Value of Assets & Liabilities (Continued)

(Dollars in Thousands)

Level 3 Class	Fair Value at September 30, 2012	Valuation Techniques	Unobservable Input	Values Utilized
Interest only trading securities	$ 13,739	Discounted cash flow	(a)	(a)
Loans held-for-sale mortgages	227,106	Discounted cash flow	Prepayment speeds	6% - 10%
			Credit spreads	2% - 4%
			Delinquency adjustment factor	15% - 25% added to credit spread
			Loss severity trends	50% - 60% of UPB
Venture capital investments	9,000	Recent purchase offers	Adjustment for preferences in equity tranches	0% - 10% discount
		Recent capitalization transactions	Adjustment for preferences in equity tranches	0% - 10% discount
Mortgage servicing rights	120,537	Discounted cash flow	(a)	(a)
Other short-term borrowings	11,585	Discounted cash flow	(b)	(b)
Derivative liabilities, other	2,340	Discounted cash flow	Visa covered litigation resolution amount	$4.4 billion - $5.0 billion
			Probability of resolution scenarios	10% - 50%
			Time until resolution	9 - 18 months
Loans, net of unearned income (c)	128,626	Appraisals from comparable properties	Adjustment for value changes since appraisal	5% - 15% of appraisal
		Other collateral valuations	Borrowing base certificates	20% - 50% of gross value
			Financial Statements/Auction Values	0% - 25% of reported value
Real estate acquired by foreclosure (d)	50,589	Appraisals from comparable properties	Adjustment for value changes since appraisal	0% - 10% of appraisal
Other assets (e)	76,822	Discounted cash flow	Adjustments to current sales yields for specific properties	0% - 15% adjustment to yield
		Appraisals from comparable properties	Marketability adjustments for specific properties	0% - 25% of appraisal

(a) The unobservable inputs for Interest-only trading securities and MSR are discussed in Note 13 Loan Sales and Securitizations.
(b) The inputs and associated ranges for Other short-term borrowings mirror those of the related MSR.
(c) Represents carrying value of loans for which adjustments are required to be based on the appraised value of the collateral. Write-downs on these loans are recognized as part of provision.
(d) Represents the fair value of foreclosed properties that were measured subsequent to their initial classification as foreclosed assets. Balance excludes foreclosed real estate related to government insured mortgages.
(e) Represents tax credit investments.

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

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

Note 17 Fair Value of Assets & Liabilities (Continued)

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

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

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

Fair Value Option

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

In third quarter 2013, capital markets acquired a pool of $145.5 million conforming mortgage loans with the intent to transfer the loans to a counterparty during the quarter following the quarter of acquisition. As part of this transaction, capital markets entered into forward delivery contracts to economically hedge the value of the loans. FHN elected to recognize the loans at fair value and classified them as trading loans within trading securities in the Consolidated Condensed Statements of Condition as of September 30, 2013.

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

Prior to 2010, FHN transferred certain servicing assets in transactions that did not qualify for sale treatment due to certain recourse provisions. The associated proceeds are recognized within other short-term borrowings in the Consolidated Condensed Statements of Condition for all periods presented. Since the servicing assets are recognized at fair value and changes in the fair value of the related financing liabilities will exactly mirror the change in fair value of the associated servicing assets, management elected to account for the financing liabilities at fair value. Since the servicing assets have already been delivered to the buyer, the fair value of the financing liabilities associated with the transaction does

not reflect any instrument-specific credit risk.

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Note 17 Fair Value of Assets & Liabilities (Continued)

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

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

	September 30, 2012		
(Dollars in thousands)	Fair value carrying amount	Aggregate unpaid principal	Fair value carrying amount less aggregate unpaid principal
Mortgage loans held-for-sale reported at fair value:			
Total loans	$ 224,635	$ 330,900	$ (106,265)
Nonaccrual loans	43,398	92,831	(49,433)
Loans 90 days or more past due and still accruing	10,481	21,329	(10,848)

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2013**	2012	**2013**	2012
Changes in fair value included in net income:				
Mortgage banking noninterest income				
Loans held-for-sale	**$ (1,805)**	$ (2,799)	**$ (3,940)**	$ (849)
Other short-term borrowings	**634**	854	**(559)**	3,248
Changes in fair value included in net income:				
Capital market noninterest income				
Trading loans	**1,867**		**1,867**	

For the three months ended September 30, 2013 and 2012, the amounts for mortgage loans held-for-sale include losses of $1.4 million and $.9 million, respectively, included in pretax earnings that are attributable to changes in instrument-specific credit risk. For the nine months ended September 30, 2013 and 2012, the amounts for mortgage loans held-for-sale include immaterial gain and loss of $.4 million, respectively, included in pretax earnings that are attributable to changes in instrument-specific credit risk. The portion of the fair value adjustments related to credit risk was determined based on both a quality adjustment for delinquencies and the full credit spread on the non-conforming loans. Interest income on mortgage loans held-for-sale measured at fair value is calculated based on the note rate of the loan and is recorded in the interest income section of the Consolidated Condensed Statements of Income as interest on loans held-for-sale.

Determination of Fair Value

In accordance with ASC 820-10-35, fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following describes the assumptions and methodologies used to estimate the fair value of financial instruments and MSR recorded at fair value in the Consolidated Condensed Statements of Condition and for

estimating the fair value of financial instruments for which fair value is disclosed under ASC 825-10-50.

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

Note 17 Fair Value of Assets & Liabilities (Continued)

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

Trading securities also include retained interests in prior securitizations that qualify as financial assets, which primarily include excess interest (structured as interest-only strips) and principal-only strips.

The fair value of excess interest is determined using prices from closely comparable assets such as MSR that are tested against prices determined using a valuation model that calculates the present value of estimated future cash flows. Inputs utilized in valuing excess interest are consistent with those used to value the related MSR. The fair value of excess interest typically changes based on changes in the discount rate and differences between modeled prepayment speeds and credit losses and actual experience. FHN 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, recent market activity, and against its own experience. FHN uses inputs including yield curves, credit spreads, and prepayment speeds to determine the fair value of principal-only strips.

In third quarter 2013, FHN agreed to sell substantially all of its remaining legacy mortgage servicing, including excess interest. FHN used the price in the definitive agreement, as adjusted for the portion of pricing that was not specific to the excess interest, as a third-party pricing source in the valuation of the excess interest.

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

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

Loans held-for-sale. FHN determines the fair value of mortgage loans held-for-sale using a discounted cash flow model which incorporates both observable and unobservable inputs. Typical inputs include contractual cash flow requirements, current mortgage rates for similar products, estimated prepayment rates, credit spreads and delinquency penalty adjustments. Adjustments for delinquency and other differences in loan characteristics are typically reflected in the model s discount rates. Loss severity trends and the value of underlying collateral are also considered in assessing the appropriate fair value for severely delinquent loans and loans in foreclosure.

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

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

The fair value of floating rate loans is estimated through comparison to recent market activity in loans of similar product types, with adjustments made for differences in loan characteristics. In situations where market pricing inputs are not available, fair value is considered to approximate book value due to the monthly repricing for commercial and consumer loans, with the exception of floating rate 1-4 family residential mortgage

loans which reprice annually and will lag movements in market rates. The fair value for floating rate 1-4 family mortgage loans is calculated by discounting future cash flows to their present value. Future cash flows are discounted to their present value by using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same time period.

Note 17 Fair Value of Assets & Liabilities (Continued)

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

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

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

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

Mortgage servicing rights. FHN recognizes all classes of MSR at fair value. 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, FHN primarily relies 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, recent market activity, and against its own experience.

In third quarter 2013, FHN agreed to sell substantially all of its remaining legacy mortgage servicing. FHN used the price in the definitive agreement, as adjusted for the portion of pricing that was not specific to the MSR, as a third-party pricing source in the valuation of the MSR held at September 30, 2013.

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

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

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

assigned to each scenario, these derivatives have been classified within Level 3 in fair value measurements disclosures.

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

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Note 17 Fair Value of Assets & Liabilities (Continued)

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

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

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

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

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

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

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

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

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

The following fair value estimates are determined as of a specific point in time utilizing various assumptions and estimates. The use of assumptions and various valuation techniques, as well as the absence of secondary markets for certain financial instruments, will likely reduce the comparability of fair value disclosures between financial institutions. Due to market illiquidity, the fair values for loans, net of unearned income, loans held-for-sale, and term borrowings as of September 30, 2013 and 2012, involve the use of significant internally-developed pricing assumptions for certain components of these line items. These assumptions are considered to reflect inputs that market participants would use in transactions involving these instruments as of the measurement date. Assets and liabilities that are not financial instruments (including MSR) have not been included in the following table such as the value of long-term relationships with deposit and trust customers, premises and equipment, goodwill and other intangibles, deferred taxes, and certain other assets and other liabilities. Accordingly, the total of the fair value amounts does not represent, and should not be construed to represent, the underlying value of the Company.

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Note 17 Fair Value of Assets & Liabilities (Continued)

The following tables summarize the book value and estimated fair value of financial instruments recorded in the Consolidated Condensed Statements of Condition as well as unfunded commitments as of September 30, 2013 and 2012.

	September 30, 2013				
	Book	Fair Value			
(Dollars in thousands)	Value	Level 1	Level 2	Level 3	Total
Assets:					
Loans, net of unearned income and allowance for loan losses					
Commercial:					
Commercial, financial and industrial	$ 7,655,562	$	$	$ 7,502,354	$ 7,502,354
Commercial real estate	1,162,718			1,115,304	1,115,304
Retail:					
Consumer real estate	5,337,221			4,859,306	4,859,306
Permanent mortgage	672,138			589,999	589,999
Credit card & other	325,207			327,075	327,075
Total loans, net of unearned income and allowance for loan losses	15,152,846			14,394,038	14,394,038
Short-term financial assets					
Total interest-bearing cash	184,179	184,179			184,179
Federal funds sold	52,830		52,830		52,830
Securities purchased under agreements to resell	576,355		576,355		576,355
Total short-term financial assets	813,364	184,179	629,185		813,364
Trading securities (a)	1,343,134		1,327,415	15,719	1,343,134
Loans held-for-sale (a)	371,640			371,640	371,640
Securities available-for-sale (a) (b)	3,186,943	20,267	2,954,224	212,452	3,186,943
Derivative assets (a)	215,116	16,877	198,239		215,116
Other assets					
Tax credit investments	69,115			69,115	69,115
Deferred compensation assets	23,193	23,193			23,193
Total other assets	92,308	23,193		69,115	92,308
Nonearning assets					
Cash & due from banks	395,631	395,631			395,631
Capital markets receivables	417,743		417,743		417,743
Accrued interest receivable	71,889		71,889		71,889
Total nonearning assets	885,263	395,631	489,632		885,263
Total assets	$ 22,060,614	$ 640,147	$ 5,598,695	$ 15,062,964	$ 21,301,806
Liabilities:					
Deposits:					
Defined maturity	$ 1,573,405	$	$ 1,591,314	$	$ 1,591,314
Undefined maturity	14,710,504		14,710,504		14,710,504
Total deposits	16,283,909		16,301,818		16,301,818
Trading liabilities (a)	585,969		585,969		585,969
Short-term financial liabilities					

Federal funds purchased	1,062,901		1,062,901		1,062,901
Securities sold under agreements to repurchase	427,232		427,232		427,232
Total other borrowings	303,686		291,971	11,715	303,686
Total short-term financial liabilities	1,793,819		1,782,104	11,715	1,793,819
Term borrowings					
Real estate investment trust-preferred	45,811			47,000	47,000
Term borrowings tax credit investments	18,000			18,025	18,025
Borrowings secured by residential real estate	329,574			194,905	194,905
Other long term borrowings	1,377,903		1,365,535		1,365,535
Total term borrowings	1,771,288		1,365,535	259,930	1,625,465
Derivative liabilities (a)	165,918	9,770	153,403	2,745	165,918
Other noninterest-bearing liabilities					
Capital markets payables	388,373		388,373		388,373
Accrued interest payable	33,924		33,924		33,924
Total other noninterest-bearing liabilities	422,297		422,297		422,297
Total liabilities	$ 21,023,200	$ 9,770	$ 20,611,126	$ 274,390	$ 20,895,286

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

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

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Note 17 Fair Value of Assets & Liabilities (Continued)

	September 30, 2012				
	Book	Fair Value			
(Dollars in thousands)	Value	Level 1	Level 2	Level 3	Total
Assets:					
Loans, net of unearned income and allowance for loan losses					
Commercial:					
Commercial, financial and industrial	$ 8,359,909	$	$	$ 8,138,108	$ 8,138,108
Commercial real estate	1,202,506			1,146,620	1,146,620
Retail:					
Consumer real estate	5,619,955			5,287,039	5,287,039
Permanent mortgage	779,954			722,087	722,087
Credit card & other	279,715			280,344	280,344
Total loans, net of unearned income and allowance for loan losses	16,242,039			15,574,198	15,574,198
Short-term financial assets					
Total interest-bearing cash	440,916	440,916			440,916
Federal funds sold	12,425		12,425		12,425
Securities purchased under agreements to resell	517,263		517,263		517,263
Total short-term financial assets	970,604	440,916	529,688		970,604
Trading securities (a)	1,204,366		1,190,622	13,744	1,204,366
Loans held-for-sale (a)	410,550		48,425	362,125	410,550
Securities available-for-sale (a) (b)	3,123,629	13,794	2,897,657	212,178	3,123,629
Derivative assets (a)	334,025	14,862	319,163		334,025
Other assets					
Tax credit investments	76,822			76,822	76,822
Deferred compensation assets	23,301	23,301			23,301
Total other assets	100,123	23,301		76,822	100,123
Nonearning assets					
Cash & due from banks	355,978	355,978			355,978
Capital markets receivables	791,190		791,190		791,190
Accrued interest receivable	85,042		85,042		85,042
Total nonearning assets	1,232,210	355,978	876,232		1,232,210
Total assets	$ 23,617,546	$ 848,851	$ 5,861,787	$ 16,239,067	$ 22,949,705
Liabilities:					
Deposits:					
Defined maturity	$ 1,582,097	$	$ 1,618,019	$	$ 1,618,019
Undefined maturity	14,646,014		14,646,014		14,646,014
Total deposits	16,228,111		16,264,033		16,264,033
Trading liabilities (a)	516,970		516,970		516,970
Short-term financial liabilities					
Federal funds purchased	1,350,806		1,350,806		1,350,806
Securities sold under agreements to repurchase	443,370		443,370		443,370
Total other borrowings	856,958		845,373	11,585	856,958
Total short-term financial liabilities	2,651,134		2,639,549	11,585	2,651,134

Term borrowings					
Real estate investment trust-preferred	45,743			42,300	42,300
Term borrowings new market tax credit investment	15,301			16,280	16,280
Borrowings secured by residential real estate	415,975			353,578	353,578
Other long term borrowings	1,786,219		1,716,741		1,716,741
Total term borrowings	2,263,238		1,716,741	412,158	2,128,899
Derivative liabilities (a)	225,084	12,424	210,320	2,340	225,084
Other noninterest-bearing liabilities					
Capital markets payables	574,201		574,201		574,201
Accrued interest payable	43,184		43,184		43,184
Total other noninterest-bearing liabilities	617,385		617,385		617,385
Total liabilities	$ 22,501,922	$ 12,424	$ 21,964,998	$ 426,083	$ 22,403,505

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

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

(b) Level 3 includes restricted investments in FHLB-Cincinnati stock of $125.5 million and FRB stock of $66.0 million.

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Note 17 Fair Value of Assets & Liabilities (Continued)

	Contractual Amount		Fair Value	
	September 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
Unfunded Commitments:				
Loan commitments	**$ 9,048,424**	$ 7,890,786	**$ 1,722**	$ 1,571
Standby and other commitments	**302,160**	371,899	**4,819**	5,333

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Note 18 Restructuring, Repositioning, and Efficiency

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

Generally, restructuring, repositioning, and efficiency charges related to exited businesses are included in the non-strategic segment while charges related to corporate-driven actions are included in the corporate segment. Net charges recognized by FHN during the nine months ended September 30, 2013, related to restructuring, repositioning, and efficiency activities were $4.5 million. Of this amount, $3.0 million represent exit costs that were accounted for in accordance with the Exit of Disposal Cost Obligations Topic of the FASB Accounting Standards Codification (ASC 420). Significant expenses recognized during the nine months ended September 30, 2013 resulted from the following action:

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

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

During the nine months ended September 30, 2012, FHN recognized a net cost of $6.2 million related to restructuring, repositioning, and efficiency activities. Of this amount, $4.7 million represent exit costs that were accounted for in accordance with ASC 420. Significant expenses recognized during the nine months ended September 30, 2012 resulted from the following actions:

Severance and other employee costs of $4.8 million primarily related to efficiency initiatives within corporate and bank services functions which are classified as Employee compensation, incentives, and benefits within noninterest expense.

Expense of $2.3 million related to prior servicing sales which is reflected in Mortgage banking income.

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

Activity in the restructuring and repositioning liability for the three and nine months ended September 30, 2013 and 2012, is presented in the following table, along with other restructuring and repositioning expenses recognized.

	Three Months Ended September 30				Nine Months Ended September 30			
	2013		2012		**2013**		2012	
(Dollars in thousands)	**Expense**	**Liability**	Expense	Liability	**Expense**	**Liability**	Expense	Liability
Beginning balance	**$**	**$ 4,277**	$	$ 8,947	**$**	**$ 19,775**	$	$ 12,026
Severance and other employee related costs	**1,160**	**1,160**	2,730	2,730	**2,620**	**2,620**	4,769	4,769
Facility consolidation costs	**38**	**38**	41	41	**416**	**416**	(134)	(134)
Other exit costs, professional fees, and other							111	111
Total accrued	**1,198**	**5,475**	2,771	11,718	**3,036**	**22,811**	4,746	16,772
Payments related to:								
Severance and other employee related costs		**826**		5,718		**17,490**		8,680
Facility consolidation costs		**248**		529		**824**		1,406
Other exit costs, professional fees, and other								15
Accrual reversals		**7**		17		**103**		1,217

Restructuring and repositioning reserve balance	**$ 4,394**	$ 5,454	**$ 4,394**	$ 5,454
Other restructuring and repositioning expense:				
Mortgage banking expense on servicing sales	**2,192**		**2,192**	2,287
(Gains)/losses on divestitures	**(365)**	(180)	**(1,004)**	(865)
Impairment of premises and equipment	**369**		**369**	5
Impairment of other assets				12
Other			**(96)**	
Total other restructuring and repositioning expense	**2,196**	(180)	**1,461**	1,439
Total restructuring and repositioning charges	**$ 3,394**	$ 2,591	**$ 4,497**	$ 6,185

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Note 18 Restructuring, Repositioning, and Efficiency (Continued)

FHN began initiatives related to restructuring in second quarter 2007. Consequently, the following table presents cumulative amounts incurred to date through September 30, 2013, for costs associated with FHN s restructuring, repositioning, and efficiency initiatives:

(Dollars in thousands)	Total Expense
Severance and other employee related costs	$ 103,313
Facility consolidation costs	41,112
Other exit costs, professional fees, and other	19,165
Other restructuring and repositioning expense:	
Loan portfolio divestiture	7,672
Mortgage banking expense on servicing sales	26,002
(Gains)/losses on divestitures	(722)
Impairment of premises and equipment	22,766
Impairment of intangible assets	48,231
Impairment of other assets	40,504
Other	7,478
Total restructuring and repositioning charges incurred to date as of September 30, 2013	$ 315,521

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FIRST HORIZON NATIONAL CORPORATION

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

GENERAL INFORMATION

First Horizon National Corporation (FHN) began as a community bank chartered in 1864 and as of September 30, 2013, was one of the 40 largest publicly traded banking organizations in the United States in terms of asset size.

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

FHN is composed of the following operating segments:

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

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

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

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

On June 7, 2013, First Tennessee Bank National Association (FTBNA), a subsidiary of FHN, acquired substantially all of the assets and assumed substantially all of the liabilities of Mountain National Bank (MNB) from the Federal Deposit Insurance Corporation (FDIC), as receiver. Excluding purchase accounting adjustments FHN acquired approximately $452 million in assets, including approximately $249 million in loans excluding loan discounts, and assumed approximately $362 million of MNB deposits. Refer to Note 2 Acquisitions and Divestitures for additional information.

For the purpose of this management s discussion and analysis (MD&A), earning assets have been expressed as averages, unless otherwise noted, and loans have been disclosed net of unearned income. The following financial discussion should be read with the accompanying unaudited Consolidated Condensed Financial Statements and Notes in this report. Additional information including the 2012 financial statements, notes, and MD&A is provided in FHN s 2012 Annual Report.

Non-GAAP Measures

Certain ratios are included in the narrative and tables in MD&A that are non-GAAP, meaning they are not presented in accordance with generally accepted accounting principles (GAAP) in the U.S. FHN s management believes such measures are relevant to understanding the capital position and results of the company. The non-GAAP ratios presented in this filing are the net interest margin using net interest income adjusted for fully taxable equivalent (FTE) and the tier 1 common capital ratio. These measures are reported to FHN s management and board of

directors through various internal reports. Additionally, disclosure of the non-GAAP capital ratio provides a meaningful base for comparability to other financial institutions as this ratio has become an important measure of the capital strength of banks as demonstrated by its use by banking regulators in reviewing capital adequacy of financial institutions. Non-GAAP measures are not formally defined by GAAP or codified in currently effective federal banking regulations, and other entities may use calculation methods that differ from those used by FHN. Tier 1 Capital is a regulatory term and is generally defined as the sum of core capital (including common equity and instruments that cannot be redeemed at the option of the holder) adjusted for certain items under risk-based capital regulations. Risk-weighted assets is a regulatory term which includes total assets adjusted for credit risk and is used to determine regulatory capital ratios. Refer to Table 24 for a reconciliation of non-GAAP to GAAP measures and presentation of the most comparable GAAP items.

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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 expressions that indicate future events 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 FHN s control, and many of which, with respect to future business decisions and actions (including acquisitions and divestitures), are subject to change. Examples of uncertainties and contingencies include, among other important factors, global, general and local economic and business conditions, including economic recession or depression; the level and length of deterioration in the residential housing and commercial real estate markets; potential requirements for FHN to repurchase previously sold or securitized mortgages or securities based on such mortgages; potential claims relating to the foreclosure process; 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, including fluctuations in mortgage markets; inflation or deflation; customer, investor, regulatory, and legislative responses to any or all of these conditions; the financial condition of borrowers and other counterparties; competition within and outside the financial services industry; geopolitical developments including possible terrorist activity; natural disasters; effectiveness and cost-efficiency of FHN s hedging practices; technological changes; fraud, theft, or other incursions through conventional, electronic, or other means; 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, servicing, and holding loans and loan-based assets, including prepayment risks, pricing concessions, fluctuation in U.S. housing and other real estate prices, fluctuation of collateral values, and changes in customer profiles. Additionally, the actions of the Securities and Exchange Commission (SEC), the Financial Accounting Standards Board (FASB), the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), Financial Industry Regulatory Authority (FINRA), the Consumer Financial Protection Bureau (Bureau), the Financial Stability Oversight Council (Council), and other regulators and agencies; regulatory, administrative, 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, perhaps materially, from those contemplated by the forward-looking statements. FHN assumes no obligation to update or revise, whether as a result of new information, future events, or otherwise, any forward-looking statements that are made in this Quarterly Report or otherwise from time to time. Actual results could differ and expectations could change, possibly materially, because of one or more factors, including those presented in this Forward-Looking Statements section, in other sections of this MD&A, in other parts of and exhibits to this Quarterly Report on Form 10-Q for the period ended September 30, 2013, and in documents incorporated into this Quarterly Report.

FINANCIAL SUMMARY

For third quarter 2013, FHN reported a net loss available to common shareholders of $107.5 million or $.45 loss per diluted share compared to net income of $25.8 million or $.10 earnings per diluted share in third quarter 2012. For the nine months ended September 30, 2013, FHN reported a net loss available to common shareholders of $25.6 million or $.11 loss per diluted share compared to a net loss of $68.4 million or $.27 loss per diluted share for the nine months ended September 30, 2012. The impact on net income available to common shareholders from preferred stock dividends was $1.6 million and $4.3 million, respectively, for the three and nine months ended September 30, 2013, and $0 in the comparative periods of 2012. The third quarter decline in income compared to third quarter 2012 was driven by a significant increase in expenses coupled with a decrease in revenues, which more than offset a reduction in the loan loss provision. During the nine months ended September 30, 2013, the improvement in results compared to the prior year was driven by a significant decrease in expenses and the loan loss provision, which more than offset a decline in revenues.

In fourth quarter 2013, FHN entered into a definitive resolution agreement (DRA) with the Federal National Mortgage Association (FNMA, Fannie Mae, or Fannie) resolving certain selling representation and warranty repurchase obligations associated with loans originated from 2000 to 2008 excluding certain loans FHN no longer services. In association with new information that encompasses a broader population of loans obtained leading up to the DRA, FHN recorded a $200.0 million repurchase and foreclosure provision in third quarter 2013. See the discussion of FHN s repurchase and obligations within the Repurchase, Obligations, Off-Balance Sheet Arrangements, and Other Contractual Obligations section of MD&A and Note 10 Contingencies and Other Disclosures for additional details. Additionally, in third quarter 2013, FHN signed a definitive agreement to sell substantially all remaining legacy mortgage servicing. The servicing is expected to be transferred to the buyer during the next few months.

Total revenue for the three and nine months ended September 30, 2013 was $309.3 million and $929.8 million, respectively, compared to $337.0 million and $1.0 billion for the three and nine months ended September 30, 2012. The decline in revenue in both periods was primarily driven by a reduction in capital markets income due to less favorable market conditions in 2013 relative to 2012 and a

decrease in net interest income (NII). In third quarter 2013, the decline in revenue was partially offset by higher mortgage banking income primarily due to an increase in net hedging results reflecting the terms of the servicing sale agreement mentioned above. For the nine months ended September 30, 2013, a decrease in mortgage banking income, as well as a decline in securities gains also contributed to the decrease in revenue.

Expenses in third quarter 2013 increased 65 percent to $433.6 million from the prior year primarily due to an increase in the repurchase and foreclosure provision. Repurchase and foreclosure provision expense was $200.0 million in third quarter 2013 compared to $0 in third quarter 2012, due to additional new information received in connection with the DRA mentioned above. Offsetting a portion of this increase, expenses were favorably affected by lower personnel expenses and a decline in losses from litigation and regulatory matters. Expenses for the nine months ended September 30, 2013, decreased 19 percent, or $210.8 million, to $901.5 million compared to the same period of 2012. The decrease was largely due to reductions in the repurchase and foreclosure provision, personnel expense, and a decline in losses from litigation and regulatory matters. Repurchase and foreclosure provision expense was $200.0 million for the nine months ended September 30, 2013, compared to $299.3 million for the nine months ended September 30, 2012. Personnel expense declined 16 percent during the nine months ended September 30, 2013, driven by a reduction in pension-related expenses and lower capital markets variable compensation, as well as a 6 percent reduction in average headcount. For the nine months ended September 30, 2013, these decreases were partially offset by an increase in legal and professional fees. With few exceptions, all other expense categories remained flat or declined for the three and nine months ended September 30, 2013, due to FHN s continued focus on cost reductions and efficiency throughout the organization.

The provision for loan losses was $10.0 million and $40.0 million in third quarter 2013 and 2012, respectively, and $40.0 million and $63.0 million for the nine months ended September 30, 2013 and 2012, respectively. Provision expense in both periods of 2012 includes approximately $30.0 million associated with the implementation of regulatory guidance related to discharged bankruptcies. Both periods reflect aggregate improvement in the loan portfolio. Improvement from third quarter 2012 resulted in a 9 percent decline in the allowance for loan losses (ALLL) and an 80 percent decline in net charge-offs from a year ago. Non-performing loans increased from a year ago which was largely driven by further implementation of regulatory guidance.

Return on average common equity and return on average assets for third quarter 2013 were negative 20.39 percent and negative 1.69 percent, respectively, compared to positive 4.59 percent and positive .45 percent, respectively, in third quarter 2012. During the nine months ended September 30, 2013 and 2012, the return on average common equity was negative 1.58 percent and negative 3.92 percent, respectively, and the return on average assets was negative .07 percent and negative .32 percent, respectively. The Tier 1 capital ratio was 13.26 percent as of September 30, 2013, compared to 13.15 percent on September 30, 2012. Total period-end assets decreased to $24.2 billion on September 30, 2013, from $25.7 billion on September 30, 2012. Average loans declined 5 percent and 2 percent to $15.7 billion and $15.9 billion, respectively, in the three and nine months ended September 30, 2013 relative to the same periods in 2012. Average core deposits increased 5 percent and 2 percent to $16.0 billion and $15.8 billion, respectively, in the three and nine months ended September 30, 2013. Shareholders equity declined to $2.4 billion on September 30, 2013 from $2.5 billion on September 30, 2012.

BUSINESS LINE REVIEW

Regional Banking

Pre-tax income within the regional banking segment was $75.8 million during third quarter 2013, compared to $70.9 million in third quarter 2012. During the nine months ended September 30, 2013, the regional banking pre-tax income was $220.2 million compared to $210.8 million for the nine months ended September 30, 2012. The increase in pre-tax income in both periods was primarily driven by a reduction in expenses which more than offset an increase in the loan loss provision and lower revenues.

Total revenue declined 1 percent for the quarter ended September 30, 2013 to $212.4 million from a year ago which was largely driven by a decline in NII. NII was $148.5 million in third quarter 2013 down from $151.1 million in third quarter 2012. The decrease in NII was largely attributable to a decline in loans to mortgage companies, partially offset by an increase in consumer real estate installment loans and commercial balances from a year ago. Noninterest income was $63.9 million in third quarter 2013 compared to $64.2 million in third quarter 2012. The slight decline in noninterest income was largely driven by lower non-sufficient funds (NSF)/overdraft fees which were $11.7 million in 2013 compared to $13.0 million in 2012. NSF fees have been affected by lower volume from a decrease in the number of small balance deposit accounts, a refinement in sort order processes, and overall changes in consumer behavior. Mortgage origination income declined $1.5 million to $0 for the three months ended September 30, 2013, compared to 2012 due to a shift from originations to referrals. Additionally, in third quarter 2012 FHN recognized a $1.2 million gain on sales of bank properties.

The declines in noninterest income were mitigated by increases in wealth management-related fees as well as trust services income. In 2013, brokerage management fees and commissions were up 25 percent to $10.9 million from a year ago. Additionally, fees from trust services increased 10 percent, or $.6 million from a year ago. Both increases are largely due to FHN s strategic focus on growing these businesses through

customer growth and expanding services for existing customers.

Provision expense was $5.2 million in third quarter 2013 compared to $2.9 million in third quarter 2012. The increase in provision reflects a continued slower pace of favorable grade migration, reduction in the pace of improvement in loss rates relative to 2012, and stabilizing asset quality metrics.

Noninterest expense declined $10.1 million, or 7 percent, to $131.4 million in third quarter 2013, relative to third quarter 2012. The decrease in expenses in 2013 as compared to 2012 was largely attributable to a reduction of pension-related expenses resulting from the freeze of the pension plans on December 31, 2012, coupled with headcount reductions from a year ago. Losses from foreclosed assets decreased by $1.4 million to $.3 million in third quarter 2013 as collateral values have stabilized since 2012. The decline in expenses was somewhat offset by increases in advertising expenses and professional fees. The $1.1 million increase in advertising costs was due in part to the strategic focus and branding associated with the FTB Advisor brand and professional fees were up $1.6 million as a result of consulting projects in 2013. Nearly all other expenses declined or were flat because of FHN s continued focus on cost reductions and efficiency throughout the organization.

Total revenue for the nine months ended September 30, 2013, declined 2 percent from $636.6 million in 2012 to $626.8 million in 2013 driven by declines in both NII and fee income. For the nine months ended September 30, 2013 and 2012, NII was $441.9 million and $447.2 million, respectively. The decline in NII was driven by a decline in loans to mortgage companies and the continuing low interest rate environment. Fee income was $184.9 million in 2013 compared to $189.3 million in 2012. For the year-to-date periods, NSF fees and mortgage origination income declined $4.6 million and $3.3 million, respectively, consistent with the reasons driving the quarterly declines described above. In addition, 2012 includes $3.0 million of gains associated with sales of bank properties. Consistent with quarterly trends, these year-to-date declines were mitigated by an increase in wealth management-related income which increased $4.8 million, or 19 percent, while fees from trust services were up $1.6 million or 9 percent from a year ago.

Provision expense during the nine months ended September 30, 2013 and 2012, was $15.9 million and $.3 million, respectively, and reflects a slowing rate of improvement during 2013.

During the nine months ended September 30, 2013, noninterest expense declined $34.8 million, or 8 percent, to $390.7 million as compared to the same period of 2012. The decrease in expenses associated with the pension freeze, headcount reductions from a year ago, and foreclosed assets were partially offset by an increase in professional fees as well as an increase in advertising expenses. In addition, for the nine months ended September 30, 2013, contract employment increased $1.8 million to $2.6 million and computer software increased $1.6 million to $10.9 million in 2013. The increases in contract employment and computer software expense for the year-to-date period of 2013 compared to 2012 is largely driven by technology-related projects within the regional bank. Except as otherwise discussed, nearly all other expense categories were relatively flat or lower for the nine months ended September 2013 versus 2012 because of FHN s focus on cost reductions and efficiency.

Capital Markets

Pre-tax income in the capital markets segment was $9.8 million for the quarter ended September 30, 2013 compared to $21.0 million in 2012 and $41.0 million for the nine months ended September 30, 2013, compared to $72.8 million for the same period in 2012. The decrease in pre-tax income in 2013 compared to 2012 was driven by a decline in fixed income revenue. For the quarterly periods, average daily revenue (ADR) decreased from $1.2 million in third quarter 2012 to $850 thousand in third quarter 2013. For the nine month periods, ADR was $1.0 million in 2013 versus $1.3 million in 2012. The declines in fixed income revenue during 2013 reflect less favorable market conditions in 2013, including market volatility and an increase in interest rates beginning in the latter part of the second quarter of 2013. Additionally, uncertainty surrounding potential actions of the Federal Reserve contributed to lower fixed income revenue in 2013. Other product revenue increased $3.4 million to $9.7 million in third quarter 2013 and increased $7.5 million to $28.0 million for the nine months ended September 30, 2013 due primarily to an increase in revenues from loan trading and related activities.

Noninterest expense was $58.0 million in third quarter 2013 compared to $64.6 million in third quarter 2012. For the nine months ended September 30, 2013, noninterest expense was $179.6 million compared to $205.8 million in 2012. The decline in noninterest expense for these periods is due to lower variable compensation expenses as a result of lower fixed income revenues in 2013, partially offset by increases in legal and professional fees.

Corporate

The pre-tax loss for the corporate segment was $25.4 million compared to $19.7 million during the quarters ended September 30, 2013 and 2012, respectively. The decline in third quarter 2013 pre-tax results compared to 2012 was the result of lower revenue in 2013 as expenses remained flat year over year. For the nine months ended September 30, 2013, the pre-tax loss was $66.9 million compared to $59.9 million for the same period in 2012. During the nine months ended September 30, 2013, the decrease in results was also driven by lower revenues which more than outpaced a decline in expense.

Net interest expense was $10.3 million in third quarter 2013 compared to $6.1 million in third quarter 2012 primarily due to a lower-yielding securities portfolio. Noninterest income (including securities gains) was $6.6 million in third quarter 2013 compared to $7.9 million in 2012. The decrease in noninterest income was due to $.8 million in interest related to a tax refund recognized in third quarter 2012, and a reduction in BOLI driven by lower policy benefits in 2013 relative to the prior year. Noninterest expense was relatively flat from a year ago at $21.6 million for third quarter 2013. A decline in expense in third quarter 2013 was due to a $1.5 million impairment of a tax credit investment that was recognized in 2012. This decline was offset by the impact of $1.8 million of gains recognized in 2012 related to clean up calls exercised by FHN on first lien securitization trusts.

For the nine months ended September 30, 2013, total revenue was a loss of $10.7 million compared to income of $3.2 million for the same period in 2012. The decline in revenue was largely driven by net interest expense of $28.9 million in 2013 compared to $17.8 million in 2012 which was driven by a lower-yielding securities portfolio. Fee income also contributed to the declines in year-to-date revenue as noninterest income was $18.2 million in 2013 compared to $21.0 million in 2012. A decline in BOLI income, interest related to tax refunds recognized in 2012, and deferred compensation all contributed to the decrease in noninterest income from a year ago. Changes in deferred compensation income are mirrored by changes in deferred compensation expense which is included in personnel expense.

For the nine months ended September 30, 2013, noninterest expense declined $6.8 million, or 11 percent, to $56.2 million. The decrease in expense is due in part to a reduction in personnel costs and a $5.5 million decline in expenses from tax credit investments which includes the impairment recognized in 2012 discussed above. The decline in personnel-related expenses is largely due to a reduction in salary expense associated with headcount reductions, lower restructuring charges in 2013 relative to 2012, and a decrease in deferred compensation expense. These declines were partially offset by a $1.4 million increase in professional fees related to various consulting projects throughout the organization and the impact of gains recognized in third quarter 2012 associated with the exercise of cleanup calls.

Non-Strategic

The non-strategic segment had a pre-tax loss of $194.5 million for the quarter ended September 30, 2013, compared to a pre-tax loss of $38.3 million in third quarter 2012. The pre-tax loss in 2013 was driven by a significant increase in expenses coupled with a decline in revenues which more than offset a reduction in the loan loss provision. For the nine months ended September 30, 2013, the pre-tax loss was $206.0 million compared to $356.0 million during the same period of 2012. The improvement during the nine months ended September 30, 2013, was the result of lower expenses and a reduction in the loan loss provision, which more than offset a decline in revenues relative to the prior year.

Total revenue was $32.8 million and $34.3 million in third quarter 2013 and 2012, respectively, with NII declining 29 percent to $16.9 million in 2013 from $23.7 million in the prior year. The decline in NII is primarily due to an 18 percent reduction in average loans from 2012 as the legacy portfolios continue to runoff. Noninterest income (including securities gains/losses) increased $5.3 million in third quarter 2013 from $10.6 million in third quarter 2012 due to an increase in mortgage banking income. The increase in mortgage banking income during third quarter 2013 is primarily the result of an increase in net hedging results related to the valuation adjustment reflecting the terms of the agreement to sell substantially all of FHN s first lien loan mortgage servicing portfolio. Servicing fees declined to $10.9 million in third quarter 2013 from $13.8 million in 2012 consistent with a reduction in the size of the mortgage servicing portfolio due to runoff. Additionally, mortgage banking income included a $2.2 million negative adjustment made in third quarter 2013 as a result of estimated costs for obligations associated with the agreement to sell mortgage servicing.

Provision expense was $4.8 million in third quarter 2013, down from $37.1 million in third quarter 2012. A majority of the decrease from a year ago is due to the implementation of regulatory guidance related to discharged bankruptcies in 2012 which required certain residential real estate loans to be charged-down to estimates of collateral value.

Noninterest expense was $222.5 million in third quarter 2013 compared to $35.5 million in third quarter 2012. The increase in expense was the result of a $200.0 million increase in the repurchase and foreclosure reserve related to significant new additional information received in connection with the DRA mentioned above. Loss accruals related to legal matters declined by $6.4 million and contract employment expenses associated with lower mortgage sub-servicing costs declined by $2.0 million from $8.3 million in third quarter 2012. The decline in mortgage sub-servicing costs is primarily due to runoff of the servicing portfolio from a year ago.

Total revenue for the nine months ended September 30, 2013 and 2012, was $93.0 million and $124.6 million, respectively. NII declined 23 percent to $55.6 million in 2013 from $72.6 million in 2012 as a result of runoff of the loan portfolios. For the nine months ended September 30, 2013 and 2012, noninterest income (including securities gains/losses) was $37.5 million and $52.0 million, respectively. The decline in noninterest income was the result of a reduction in mortgage banking income and a decline in investment securities gains. The decrease in mortgage banking income was primarily due to a $10.7 million decline in servicing fees from runoff of the servicing portfolio, a higher negative valuation adjustment to the mortgage warehouse recognized in 2013, and the accrual of estimated sales costs recognized in third quarter 2013 associated with the agreement to sell mortgage servicing. Net hedging results were $16.3 million for the nine months ended September 30, 2013,

compared to $15.4 million in the same period of 2012. Net hedging results in 2013 reflect the terms of the mortgage servicing sales agreement mentioned above which more than offset more narrow

spreads between mortgage and swap rates in 2013 relative to 2012. Noninterest income for the nine months ended September 30, 2013, includes $3.5 million of gains from the reversals of previously established lower of cost or market (LOCOM) adjustments associated with trust preferred (TRUP) loan payoffs. Noninterest income in 2012 includes a $5.1 million gain on the sale of a venture capital investment.

The provision for loan losses for the nine months ended September 30, 2013, was $24.1 million, down from $62.7 million in 2012. The decrease in provision during these periods was driven by the impact of runoff of the legacy loan portfolios combined with aggregate improvement of the remaining balances from 2012. Additionally, third quarter 2012 included the negative impact of implementing regulatory guidance associated with discharged bankruptcies.

For the nine months ended September 30, 2013 and 2012, noninterest expense was $274.9 million and $418.0 million, respectively. The decrease in expense was primarily due to a decline in the repurchase and foreclosure provision from $299.3 million in 2012 to $200.0 in 2013, as well as a $22.3 million decline in loss accruals related to legal matters. During the first nine months of 2013, contract employment expenses were $5.3 million lower than the same period of 2012 and expenses associated with foreclosed property declined $3.3 million due to improvement in collateral values as well as an overall decline in the balance of foreclosed assets. Noninterest expense in 2012 includes elevated ancillary expenses associated with legacy mortgage wind-down activities, as well as $2.8 million related to the write-off of unrecoverable servicing advances. Generally, most other expense categories declined given the continued wind-down of the legacy businesses.

INCOME STATEMENT REVIEW

Total consolidated revenue was $309.3 million in third quarter 2013, down 8 percent from third quarter 2012, largely driven by lower capital markets fixed income sales revenue and a decline in net interest income, partially offset by an increase in income from mortgage banking activities. Total expenses increased during third quarter 2013 relative to third quarter 2012, due to an increase in the repurchase and foreclosure provision, which more than offset a decline in personnel related costs and decrease in losses from litigation and regulatory matters. For the nine months ended September 30, 2013, total consolidated revenue was $929.8 million compared to $1.0 billion during the same period in 2012. The decline in revenues was primarily due to decreases in capital markets fixed income revenue, net interest income, and mortgage banking income. Total expenses decreased 19 percent, or $210.8 million, during the nine months ended September 30, 2013 to $901.5 million, largely driven by declines in the repurchase and foreclosure provision, personnel expense, and losses from litigation and regulatory matters.

NET INTEREST INCOME

Net interest income was $158.8 million in third quarter 2013, an 8 percent decline from $173.5 million in third quarter 2012. For the nine months ended September 30, 2013, NII was $480.2 million, a 7 percent decline from $518.1 million for the nine months ended September 30, 2012. For the three and nine months ended September 30, 2013, the decrease in NII was primarily attributable to run-off of the non-strategic loan portfolio, a lower yielding securities portfolio, and a decline in loans to mortgage companies, somewhat mitigated by improved deposit pricing. Average earning assets were $21.5 billion in third quarter 2013 and $22.2 billion in third quarter 2012 primarily due to a decline in balances of loans to mortgage companies and run-off in the non-strategic loan portfolios. For the nine months ended September 30, 2013, average earning assets were $21.9 billion compared to $22.2 billion, as loan growth within the regional bank in the first half of 2013 offset some of the decline due to run-off in the non-strategic loan portfolios.

For purposes of computing yields and the net interest margin, FHN adjusts net interest income to reflect tax exempt income on an equivalent pre-tax basis which provides comparability of net interest income arising from both taxable and tax-exempt sources. The consolidated net interest margin decreased to 2.97 percent in third quarter 2013 from 3.15 percent in third quarter 2012. The net interest spread was 2.83 percent in 2013, down 17 basis points from 3.00 percent in third quarter 2012 and the impact of free funding declined to 14 basis points from 15 basis points. The decline in net interest margin for the quarter ended September 30, 2013 compared to the quarter ended September 30, 2012 was primarily a result of run-off of the non-strategic loan portfolios coupled with lower reinvestment rates on investments and commercial loans, partially offset by improved deposit pricing. For the nine months ended September 30, 2013, the net interest margin was 2.96 percent, down from 3.14 for the comparable period in 2012. The decline in net interest margin for the nine month period of 2013 was primarily driven by lower reinvestment rates on investments, run-off of the non-strategic loan portfolios, and lower yielding commercial loans, somewhat offset by improved pricing on deposits.

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Table 1 Net Interest Margin

	Three Months Ended September 30	
	2013	**2012**
Assets:		
Earning assets:		
Loans, net of unearned income:		
Commercial loans	**3.69 %**	3.81 %
Retail loans	**4.06**	4.30
Total loans, net of unearned income	**3.85**	4.01
Loans held-for-sale	**3.23**	3.68
Investment securities:		
U.S. treasuries	**0.09**	0.11
U.S. government agencies	**2.56**	3.01
States and municipalities	**0.55**	1.44
Other	**4.20**	4.22
Total investment securities	**2.63**	3.04
Capital markets securities inventory	**2.91**	2.69
Mortgage banking trading securities	**10.36**	11.31
Other earning assets:		
Federal funds sold	**1.01**	1.00
Securities purchased under agreements to resell (a)	**(0.11)**	0.07
Interest bearing cash	**0.21**	0.20
Total other earning assets	**0.07**	0.15
Interest income / total earning assets	**3.41 %**	3.64 %
Liabilities:		
Interest-bearing liabilities:		
Interest-bearing deposits:		
Savings	**0.20 %**	0.31 %
Other interest-bearing deposits	**0.09**	0.17
Time deposits	**1.55**	1.89
Total interest-bearing core deposits	**0.29**	0.43
Certificates of deposit $100,000 and more	**1.11**	1.38
Federal funds purchased	**0.25**	0.26
Securities sold under agreements to repurchase	**0.13**	0.17
Capital markets trading liabilities	**2.41**	1.87
Other short-term borrowings	**0.39**	0.14
Term borrowings	**2.03**	1.70
Interest expense / total interest-bearing liabilities	**0.58**	0.64
Net interest spread	**2.83 %**	3.00 %
Effect of interest-free sources used to fund earning assets	**0.14**	0.15

Net interest margin (b)	**2.97 %**	3.15 %

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

(a) 2013 driven by negative market rates on reverse repurchase agreements.
(b) Calculated using total net interest income adjusted for FTE. Refer to the Non-GAAP to GAAP reconciliation Table 24.

FHN s net interest margin is expected to remain under pressure during the fourth quarter of 2013 and into 2014, as FHN expects interest rates to remain at historically low levels which will result in continued pressure on yields in the loan portfolios.

PROVISION FOR LOAN LOSSES

The provision for loan losses is the charge to earnings that management determines to be necessary to maintain the allowance for loan losses (ALLL) at a sufficient level reflecting managements estimate of probable incurred losses in the loan portfolio. The provision for loan losses was $10.0 million in third quarter 2013 compared to $40.0 million in third quarter 2012. The provision for loan losses for the nine months ended September 30, 2013 was $40.0 million compared to $63.0 million in the comparative period of 2012. Provision expense in both periods of 2012 includes approximately $30.0 million associated with the implementation of regulatory guidance related to discharged bankruptcies. Both periods reflect aggregate improvement in the loan portfolio.

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NONINTEREST INCOME

Noninterest income was $150.5 million in third quarter 2013, down $13.1 million from the prior year, largely driven by lower capital markets fixed income revenue, but somewhat mitigated by higher mortgage banking income and an increase in revenues from brokerage, management fees, and commissions. During third quarter 2013 and 2012, noninterest income was 49 percent of total revenue. During the first nine months of 2013, noninterest income decreased to $449.5 million from $524.9 million in 2012, primarily due to declines in capital markets fixed income revenue, and mortgage banking income. For the nine months ended September 30, 2013, noninterest income was 48 percent of total revenue, compared to 50 percent for the nine months ended September 30, 2012.

Capital Markets Noninterest Income

Capital markets noninterest income declined 20 percent and 19 percent during the three and nine months ended September 30, 2013 to $64.3 million and $212.7 million, respectively. Revenue from fixed income sales was down in both periods reflecting less favorable market conditions in 2013, including market volatility and an increase in interest rates beginning in the latter part of the second quarter of 2013. Additionally, uncertainty surrounding potential actions of the Federal Reserve contributed to lower fixed income revenue in 2013. Revenue from other products increased $3.6 million to $9.9 million in third quarter 2013, and increased $11.4 million to $31.8 million during the nine months ended September 30, 2013, due primarily to an increase in revenues from loan trading and related activities. Other product revenues during the nine months ended September 30, 2013, also includes $3.5 million of gains recognized within the non-strategic segment from the reversal of previously established LOCOM valuation adjustments associated with TRUP loan payoffs.

Table 2 Capital Markets Noninterest Income

	Three Months Ended September 30		Percent	Nine Months Ended September 30		Percent
(Dollars in thousands)	**2013**	2012	Change	**2013**	2012	Change
Noninterest income:						
Fixed income	**$ 54,428**	$ 74,488	(27)%	**$ 180,916**	$ 241,999	(25)%
Other product revenue	**9,855**	6,285	57%	**31,795**	20,430	56%
Total capital markets noninterest income	**$ 64,283**	$ 80,773	(20)%	**$ 212,711**	$ 262,429	(19)%

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

Deposit Fee Income

Deposit transactions and cash management income declined 4 percent to $29.3 million in third quarter 2013 and declined 5 percent to $85.2 million during the nine months ended September 30, 2013. The decline in both comparative periods was due to lower NSF fee income which was driven by lower volume from a decrease in small balance deposit accounts, a refinement of sort order processes, and overall changes in consumer behavior.

Mortgage Banking Noninterest Income

Mortgage banking income is primarily comprised of servicing income related to legacy mortgage banking operations and fair value adjustments to the mortgage warehouse. Mortgage banking income increased to $14.5 million in third quarter 2013 from $10.4 million in third quarter 2012. During the nine months ended September 30, 2013, mortgage banking income decreased $14.2 million, or 33 percent, to $29.4 million.

Servicing income, which includes fees for servicing mortgage loans, changes in the value of servicing assets, results of hedging servicing assets, and the negative impact of runoff on the value of MSR, is the largest component of mortgage banking income. Total servicing income increased to $17.8 million in third quarter 2013 from $12.2 million in third quarter 2012, largely driven by an increase in net hedging results, but somewhat offset by a decline in servicing fees. During third quarter 2013, FHN signed a definitive agreement to sell substantially all remaining legacy mortgage servicing, and as a result of the valuation adjustment reflecting the terms of the agreement, positive net hedging results increased to $12.9 million from $4.5 million in third quarter 2012. Servicing fees declined 21 percent during the quarter ended September 30, 2013 to $10.9 million consistent with the mortgage servicing portfolio decline.

Total servicing income for the first nine months of 2013 was $34.6 million compared to $43.1 million in 2012, driven by a decline in servicing fees, somewhat mitigated by increased net hedging results and a reduction in the negative impact of runoff on the value of MSR. For the nine months ended September 30, 2013, servicing fees declined 23 percent to $35.3 million, which is directionally consistent with the decline in balances of the servicing portfolio. Net hedging results increased during this period, as compared to the prior year, as the valuation adjustment reflecting the terms of the definitive agreement to sell servicing more than offset more narrow spreads between swap and mortgage rates in 2013 relative to 2012. The negative impact to the value of MSR that is attributable to runoff was $17.0 million and $18.2 million in the first nine months of 2013 and 2012, respectively.

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Mortgage banking income also includes fair value adjustments to the legacy mortgage warehouse, origination income, and other income. Negative fair value adjustments to the mortgage warehouse for the three and nine months ended September 30, 2013 were $1.4 million and $3.6 million, respectively. The fair value adjustment in third quarter 2013 was largely associated with credit risk while the year-to-date adjustments were primarily driven by interest rate increases that occurred in second quarter 2013. The negative valuation adjustment in third quarter 2012 was $3.5 million and was $1.2 million for the nine months ended September 30, 2012 as both periods were more significantly affected by changes in credit risk. Origination income in 2013 declined 82 percent for both the quarterly and year-to-date periods as FHN shifted from originations to a referral fee-based model. For both the three and nine months ended September 30, 2013, other mortgage banking income included a $2.2 million charge associated with estimated costs for obligations related to the agreement to sell mortgage servicing. The nine months ended September 30, 2012 include charges associated with contingencies related to prior servicing sales.

Table 3 Mortgage Banking Noninterest Income

	Three Months Ended September 30		Percent	Nine Months Ended September 30		Percent
	2013	2012	Change	**2013**	2012	Change
Noninterest income *(thousands)*:						
Origination income	**$ 293**	$ 1,622	(82)%	**$ 690**	$ 3,750	(82)%
Mortgage warehouse valuation	**(1,441)**	(3,470)	58%	**(3,636)**	(1,204)	NM
Servicing income/(expense):						
Servicing fees	**10,854**	13,778	(21)%	**35,265**	45,964	(23)%
Change in MSR value runoff	**(5,989)**	(6,049)	1%	**(16,980)**	(18,212)	7%
Net hedging results (a)	**12,935**	4,486	NM	**16,275**	15,383	6%
Total servicing income	**17,800**	12,215	46%	**34,560**	43,135	(20)%
Other (b)	**(2,192)**	6	NM	**(2,192)**	(2,078)	(5)%
Total mortgage banking noninterest income	**$ 14,460**	$ 10,373	39%	**$ 29,422**	$ 43,603	(33)%

	As of September 30,		Percent
	2013	2012	Change
Mortgage banking statistics *(millions)*:			
Servicing portfolio owned (first lien mortgage loans) (c)	**$ 13,784**	$ 17,536	(21)%

NM not meaningful

(a) Three and nine months ended September 30, 2013, includes an increase in net hedging results driven by the mark to the terms of the mortgage servicing sale agreement.
(b) Three and nine months ended September 30, 2013, includes a negative adjustment as a result of estimated costs for obligations associated with the agreement to sell servicing. Nine months ended September 30, 2012, includes a $2.4 million negative adjustment related to contingencies for prior servicing sales.
(c) Excludes foreclosed assets.

Noninterest income from brokerage, management fees and commissions was $10.9 million and $30.8 million, respectively, for the three and nine months ended September 30, 2013, an increase of 25 percent and 19 percent, respectively, from the comparative periods in 2012. Trust services and investment management income also increased in 2013 relative to the prior year, resulting in a 10 percent improvement in third quarter 2013 and a 9 percent improvement for the first nine months of 2013. Both categories benefited from FHN s strategic focus on growing these businesses through new customers and also referrals from wealth management for trust services.

During the nine month period ended September 30, 2012, FHN recognized a $5.1 million gain on sale of a venture capital investment.

Other Noninterest Income

Other income and commissions decreased $2.2 million for the quarter ended September 30, 2013 to $24.2 million largely driven by $.8 million of interest associated with a tax refund and $1.2 million gain on the sale of bank branches recognized in third quarter 2012.

For the nine months ended September 30, 2013, other income and commissions decreased $7.6 million to $69.8 million compared to the same period in 2012. Bankcard income declined 7 percent, or $1.1 million, to $15.5 million in 2013. The decrease in bankcard income relates to incentives received from Visa in 2012 and are not anticipated for 2013 due to transaction volume. All other income decreased $5.3 million to $11.2 million for the nine months ended September 30, 2013 compared to 2012. Significant drivers of the decrease relate to $3.0 million gains on the sales of bank properties, a $2.3 million gain related to the resolution of a legal matter, and $1.0 million of interest associated with a tax refund which were all recognized in 2012. The following table provides detail regarding FHN s other income.

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Table 4 Other Income

(Dollars in thousands)	Three Months Ended September 30 **2013**	2012	Nine Months Ended September 30 **2013**	2012
Other income:				
Bankcard income	**$ 5,303**	$ 5,298	**$ 15,484**	$ 16,618
Other service charges	**3,707**	3,263	**10,296**	9,768
Bank owned life insurance	**3,560**	4,293	**12,978**	13,724
ATM interchange fees	**2,680**	2,579	**7,691**	7,804
Deferred compensation	**2,160**	1,966	**3,475**	4,065
Electronic banking fees	**1,607**	1,589	**4,754**	4,927
Letter of credit fees	**1,171**	1,072	**3,866**	3,966
Other	**3,996**	6,280	**11,230**	16,535
Total	**$ 24,184**	$ 26,340	**$ 69,774**	$ 77,407

NONINTEREST EXPENSE

Total noninterest expense increased 65 percent to $433.6 million in third quarter 2013 which was primarily the result of a $200.0 million charge to the repurchase and foreclosure provision in 2013, which more than offset a decline in personnel expenses relative to third quarter 2012.

During the three and nine months ended September 30, 2013, repurchase and foreclosure provision expense was $200.0 million, compared to $0 and $299.3 million for the three and nine months ended September 30, 2012. In second quarter 2012, FHN recorded $250.0 million of repurchase and foreclosure provision expense related to the revision of repurchase obligations for alleged breaches of representations and warranties related to mortgage loans sold to Fannie Mae and the Federal Home Loan Mortgage Corporation (FHLMC , Freddie Mac , or Freddie). In third quarter 2013, FHN recorded $200.0 million of repurchase and foreclosure provision expense as additional information, obtained leading up to the DRA, encompassed a broader population of loans. The provision included the impact of the DRA, estimates for future loss not included in the DRA, and estimates for future loss related to Freddie Mac. (See the discussion of FHN s repurchase obligations within the Repurchase Obligations, Off-Balance Sheet Arrangements, and Other Contractual Obligations section of MD&A and Note 10 Contingencies and Other Disclosures for additional details.)

Employee compensation, incentives, and benefits (personnel expense), which is generally the largest component of noninterest expense, declined $21.8 million during the quarter ended September 30, 2013, to $132.2 million. The decrease in personnel expenses relative to third quarter 2012, is largely driven by a $9.7 million reduction in pension costs resulting from the freeze of the pension plans on December 31, 2012, a decline in variable compensation associated with lower fixed income sales revenue, and a decrease in severance-related costs associated with restructuring, repositioning, and efficiency initiatives. Additionally, headcount reductions relative to the prior year also contributed to lower personnel expenses.

Foreclosed real estate expenses were $.5 million in third quarter compared to $3.0 million in third quarter 2012 due to declines in negative valuation adjustments and lower property preservation costs. Contract employment expenses decreased $.9 million to $9.2 million during third quarter 2013 due to lower sub-servicing costs as a result of volume reductions consistent with the run-off of the servicing portfolio. FDIC premium expense was $4.6 million in third quarter 2013, down from $7.5 million in 2012.

All other expenses were $26.8 million and $30.0 million in third quarter 2013 and 2012, respectively. The decrease in all other expenses was primarily the result of a reduction in litigation-related charges in 2013 relative to 2012, and a $2.6 million decrease due to a decline in expense from tax credit investments as third quarter 2012 included an impairment of a tax credit investment. These decreases were partially offset by an increase in Advertising expense of $1.4 million in third quarter 2013 related to product branding initiatives associated with FTB Advisors. In third quarter 2012, FHN recorded a $1.8 million favorable adjustment to franchise taxes and a $1.8 million gain related to clean-up calls for first lien securitizations.

For the nine months ended September 30, 2013, total noninterest expenses decreased 19 percent from 2012 to $901.5 million largely driven by decreases in the repurchase and foreclosure provision, personnel expenses, and litigation-related expenses, partially offset by an increase in legal and professional fees.

Personnel expense declined $77.1 million for the nine months ended September 30, 2013, from $479.0 million in 2012 to $401.9 million. The decrease in personnel expenses is largely driven by a $29.9 million reduction in pension costs, a decline in capital markets variable compensation, and lower severance-related costs relative to the same period in the prior year. A 6 percent decline in average headcount also contributed to lower personnel expenses.

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During the nine months ended September 30, 2013, repurchase and foreclosure provision expense declined to $200.0 million from $299.3 million, as discussed above. In second quarter 2012, FHN recorded $250.0 million to the repurchase and foreclosure provision.

Legal and professional fees increased $11.2 million to $37.9 million for the nine months ended September 30, 2013 driven by an increase in costs related to litigation matters and also various consulting projects throughout the organization compared to the prior year.

For the nine months ended September 30, 2013, expenses related to foreclosed real estate and contract employment declined $5.8 million and $5.3 million, respectively. FDIC premium expense was $15.7 million for the first nine months of 2013, down from $20.7 million in 2012.

All other expenses declined $29.8 million for the nine months ended September 30, 2013, from $108.6 million in 2012 to $78.8 million. This decline was largely driven by a reduction in litigation-related charges in the current year relative to 2012, as well as a $5.4 million decrease in expenses from tax credit investments. Advertising expenses increased $2.0 million during the nine months ended September 30, 2013, as described above. During the nine months ended September 30, 2012, FHN had several favorable adjustments which affected trends for the comparative year-to-date period including a $1.8 million favorable adjustment to franchise taxes and a $1.8 million gain related to clean-up calls for first lien securitizations. Other expenses in 2012 included $3.4 million in ancillary expenses associated with legacy mortgage wind-down activities and a $2.8 million charge related to the write-off of unrecoverable servicing advances. The following table provides detail regarding FHN s other expense.

Table 5 Other Expense

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2013**	2012	**2013**	2012
Other expense:				
Advertising and public relations	**$ 5,486**	$ 4,121	**$ 13,554**	$ 11,524
Other insurance and taxes	**3,215**	1,327	**9,337**	7,656
Tax credit investments	**3,079**	5,635	**9,040**	14,457
Travel and entertainment	**2,400**	2,009	**6,620**	6,308
Employee training and dues	**1,244**	1,032	**3,727**	3,354
Customer relations	**1,204**	1,027	**3,737**	3,230
Supplies	**950**	881	**2,710**	2,731
Bank examination costs	**819**	816	**2,476**	2,415
Loan insurance expense	**490**	578	**1,533**	1,803
Federal services fees	**276**	323	**840**	972
Losses from litigation and regulatory matters	**229**	6,760	**6,299**	29,013
Other	**7,376**	5,478	**18,926**	25,108
Total	**$ 26,768**	$ 29,987	**$ 78,799**	$ 108,571

INCOME TAXES

FHN recorded an income tax benefit based on the loss from continuing operations of $31.1 million in third quarter 2013, compared to an income tax provision of $5.3 million in third quarter 2012 on net pre-tax income. The effective tax rate for the quarters ended September 30, 2013 and 2012, was approximately 23 percent and 16 percent, respectively. During the nine months ended September 30, 2013, FHN recorded an income tax provision based on losses from continuing operations of $1.6 million compared to an income tax benefit of $72.3 million for the first nine months of 2012.

In 2013, FHN s tax calculations were based on the forecasted results of operations for the year, including forecasted tax preference items. FHN s tax calculations for 2012 were based on actual results of operations through September 30, 2012, including tax preference items. Due to the difference in pre-tax earnings between 2013 and 2012 and the change in methodology, the comparison of the tax rate from period to period will not provide meaningful information.

A deferred tax asset (DTA) or deferred tax liability (DTL) is recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax consequence is calculated by applying enacted statutory

tax rates, applicable to future years, to these temporary differences. As of September 30, 2013, FHN s gross DTA (net of a valuation allowance) and gross DTL were $451.4 million and $145.3 million, respectively, resulting in a net DTA of $306.1 million at September 30, 2013, compared with $249.6 million at September 30, 2012. The increase in the DTA is largely due to a decline in unrealized gains on available-for-sale securities relative to the prior year.

In order to support the recognition of the DTA, FHN s management must conclude that the realization of the DTA is more likely than not. FHN evaluates the likelihood of realization of the DTA based on both positive and negative evidence available at the time, including (as appropriate) scheduled reversals of DTLs, projected future taxable income, tax planning strategies, and recent financial

performance. Realization is dependent on generating sufficient taxable income prior to the expiration of the carryforwards attributable to the DTA. In projecting future taxable income, FHN incorporates assumptions including the amount of future state and federal pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates used to manage the underlying business.

As of September 30, 2013, FHN had federal income tax net operating loss (NOL) and tax credit carryforwards and state income tax NOL carryforwards, which will expire in varying amounts between 2029 and 2033 and federal capital loss carryforwards, which will expire in 2017. FHN established a valuation allowance of $12.6 million against its state NOL carryfowards and $51.7 million against its capital loss carryforwards as of September 30, 2013. Based on current analysis, FHN believes that its ability to realize the remaining DTA is more likely than not. FHN monitors its DTA and the need for a valuation allowance on a quarterly basis. A significant adverse change in FHN s taxable earnings outlook could result in the need for further valuation allowances. In the event FHN is able to determine that the deferred income tax assets are realizable in the future in excess of their net recorded amount, FHN would make an adjustment to the valuation allowance, which would reduce the provision for income taxes.

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

RESTRUCTURING, REPOSITIONING, AND EFFICIENCY INITIATIVES

FHN continues to refine its business mix in order to focus on higher-return core businesses and explore opportunities to reduce operating costs. The net charges from restructuring, repositioning, and efficiency activities were $3.4 million in third quarter 2013 compared to $2.6 million in third quarter 2012. For the nine months ended September 30, 2013 and 2012, net charges were $4.5 million and $6.2 million, respectively. Components of the 2013 charges primarily relate to severance and other adjustments associated with FHN s voluntary separation program, $2.2 million related to estimated costs for obligations associated with a definitive agreement to sell substantially all remaining legacy mortgage servicing, as well as a gain associated with the final settlement of Msavers in first quarter 2013. Significant charges recognized during 2012 include $4.8 million of severance costs related to efficiency initiatives throughout the organization and a $2.3 million negative adjustment related to prior servicing sales.

Charges related to restructuring, repositioning, and efficiency initiatives for the three and nine months ended September 30, 2013 and 2012, are presented in the following table based on the income statement line item affected. See Note 18 Restructuring, Repositioning, and Efficiency for additional information.

Table 6 Restructuring, Repositioning, and Efficiency Initiatives

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2013**	2012	**2013**	2012
Noninterest income:				
Mortgage banking	**$ (2,192)**	$	**$ (2,192)**	$ (2,287)
Gain on divestiture	**115**		**115**	200
Total noninterest income/(loss)	**(2,077)**		**(2,077)**	(2,087)
Noninterest expense:				
Employee compensation, incentives, and benefits	**1,160**	2,730	**2,620**	4,769
Occupancy	**38**	41	**416**	(134)
Legal and professional fees				15
All other expense	**369**		**369**	17
Total noninterest expense	**1,567**	2,771	**3,405**	4,667
Loss before income taxes	**(3,644)**	(2,771)	**(5,482)**	(6,754)
Income from discontinued operations	**250**	180	**985**	569

Net impact resulting from restructuring, repositioning, and efficiency initiatives	**$ (3,394)**	$ (2,591)	**$ (4,497)**	$ (6,185)

STATEMENT OF CONDITION REVIEW

Total period-end assets were $24.2 billion on September 30, 2013, compared to $25.7 billion on September 30, 2012, and $25.5 billion on December 31, 2012. Average assets for the third quarter of 2013 decreased to $24.2 billion from $25.1 billion a year earlier. The decline in average assets is primarily attributable to a decline in loan balances and derivative assets, partially offset by an increase in interest bearing cash.

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EARNING ASSETS

Earning assets consist of loans, loans HFS, investment securities, and other earning assets. Earning assets averaged $21.5 billion in 2013 down 3 percent from $22.2 billion a year earlier. A more detailed discussion of the major line items follows. Unless otherwise indicated, references below to balances for 2012 refer to balances at September 30, 2012, or for the third quarter of 2012 rather than December 31, 2012, or for the fourth quarter of 2012.

Loans

Period-end loans were $15.4 billion as of September 30, 2013 compared to $16.5 billion as of September 30, 2012, and $16.7 billion as of December 31, 2012. Average loans for third quarter 2013 were $15.7 billion compared to $16.4 billion in third and fourth quarters 2012. The decline in period-end and average loan balances were primarily driven by lower balances of loans to mortgage companies.

Table 7 Average Loans

	September 30, 2013		September 30, 2012		December 31, 2012		3Q13 changes vs	
(Dollars in thousands)	**Amount**	**Percent of total**	Amount	Percent of total	Amount	Percent of total	3Q12	4Q12
Commercial:								
Commercial, financial, and industrial	**$ 7,888,297**	**50%**	$ 8,237,939	50%	$ 8,330,961	51%	(4)%	(5)%
Commercial real estate	**1,215,586**	**8**	1,272,012	8	1,237,774	7	(4)%	(2)%
Total commercial	**9,103,883**	**58**	9,509,951	58	9,568,735	58	(4)%	(5)%
Retail:								
Consumer real estate (a)	**5,502,825**	**35**	5,819,620	35	5,757,724	35	(5)%	(4)%
Permanent mortgage (b)	**721,554**	**5**	805,580	5	788,428	5	(10)%	(8)%
Credit card, OTC and other	**323,551**	**2**	277,154	2	288,412	2	17 %	12 %
Total retail	**6,547,930**	**42**	6,902,354	42	6,834,564	42	(5)%	(4)%
Total loans, net of unearned	**$ 15,651,813**	**100%**	$ 16,412,305	100%	$ 16,403,299	100%	(5)%	(5)%

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

(a) Balances as of September 30, 2013 and 2012, and December 31, 2012, include $359.1 million, $438.0 million, and $415.5 million of restricted and secured real estate loans, respectively.

(b) Balances as of September 30, 2013 and 2012, and December 31, 2012, include $12.1 million, $15.9 million, and $14.0 million of restricted and secured real estate loans, respectively.

C&I loans are the largest component of the commercial portfolio comprising 87 percent of total commercial loans in both 2013 and 2012. C&I loans decreased 4 percent, or $.3 billion, from third quarter 2012, which was primarily the result of a decline in loans to mortgage companies. The decline in loans to mortgage companies is largely driven by higher mortgage rates in 2013 compared to 2012. Commercial real estate loans declined $56.4 million from third quarter 2012 to $1.2 billion in 2013 as the commercial real estate market remains soft and the non-strategic components continue to wind down. Average CRE loans were favorably impacted in 2013 by the MNB acquisition in second quarter 2013.

Total retail loans declined 5 percent, or $354.4 million from a year ago, to $6.5 billion in 2013. The consumer real estate portfolio (home equity lines and installment loans) declined $316.8 million, to $5.5 billion as the continued wind-down of portfolios within the non-strategic segment outpaced growth in real estate installment loans from new originations within the regional bank. The permanent mortgage portfolio declined $84.0 million to $721.6 million in 2013 driven by runoff, but partially mitigated by loans added to this portfolio due to the exercise of clean-up calls related to off-balance sheet securitization trusts in first quarter 2013. Credit Card, OTC, and Other increased $46.4 million to $323.6

million in 2013.

Investment Securities

FHN s investment portfolio consists principally of debt securities including government agency issued mortgage-backed securities (MBS) and government agency issued collateralized mortgage obligations (CMO), all of which are classified as available-for-sale (AFS). FHN utilizes the securities portfolio as a source of income, liquidity and collateral for repurchase agreements for public funds, and as a tool for managing risk of interest rate movements. Investment securities increased $63.3 million from $1.1 billion on September 30, 2012 to $1.2 billion on September 30, 2013 and averaged $3.2 billion in both 2013 and 2012, representing 15 percent of earning assets in 2013 compared to 14 percent in 2012. The amount of securities purchased for the investment portfolio is largely driven by the desire to protect the value of non-rate sensitive liabilities and equity and maximize yield on FHN s excess liquidity without negatively affecting future yields while operating in this historically low interest rate environment. See Note 3 Investment Securities for additional detail.

Loans Held-for-Sale (HFS)

Loans HFS consists of the mortgage warehouse, student, small business, and home equity loans. The average balance of loans HFS decreased $35.4 million from 2012 and averaged $378.3 million in 2013. The decrease in average loans was primarily attributable to sales of small business loans throughout the year offset somewhat by a larger mortgage warehouse from Government Sponsored Enterprises (GSE) repurchase activity. The mortgage warehouse, which consists of mortgage loans remaining from the legacy mortgage banking business and mortgage loans repurchased pursuant to requests from investors (primarily GSEs), averaged $351.5 million in 2013 compared to $347.2 million in 2012, and comprised over 90 percent of loans HFS in 2013.

Other Assets

All other earning assets include trading securities, securities purchased under agreements to resell, federal funds sold (FFS), and interest-bearing deposits with the Federal Reserve Bank (FRB) and other financial institutions. All other earning assets averaged $2.3 billion in 2013 and $2.2 billion in 2012 as a $135.3 million increase in interest-bearing cash (primarily excess Fed balances) and a $62.1 million increase in securities purchased under agreements to resell (asset repos), more than offset a $33.6 million decrease in capital markets securities inventory. The level of asset repos used in Capital Markets fixed income trading activity is generally correlated with the level of Capital Markets trading liabilities (short-positions) as securities collateral from repo transactions are used to fulfill trades. Capital markets securities inventory increased $.1 billion from $1.2 billion on September 30, 2012 to $1.3 billion on September 30, 2013.

Core Deposits

Core deposits were $15.7 billion on September 30, 2013 and 2012. Average core deposits increased 5 percent from $15.3 billion in 2012 to $16.0 billion in 2013. The increase in core deposits was primarily driven by an 8 percent increase in interest-bearing deposits partially offset by a 3 percent decline in noninterest-bearing deposits. The increase in interest-bearing deposits was due to an increase in Promontory Insured deposits, an increase in deposits associated with the MNB acquisition, and a shift of customer deposits from non-interest bearing accounts due to the expiration of unlimited FDIC coverage for non-interest bearing accounts under the Transaction Account Guarantee (TAG) program which expired on December 31, 2012.

Short-Term Funds

Short-term funds (certificates of deposit greater than $100,000, federal funds purchased (FFP), securities sold under agreements to repurchase, trading liabilities, and other short-term borrowings) decreased $910.6 million to $3.0 billion during third quarter 2013. This decrease was largely the result of a $724.1 million decline in average other short-term borrowings which was the result of elevated FHLB borrowings in third quarter 2012 due to deposit fluctuations and higher loans to mortgage companies. Average FFP, which currently is composed primarily of funds from correspondent banks, was $1.1 billion in 2013 compared to $1.4 billion in 2012. FFP fluctuates depending on the amount of excess funding of correspondents. These declines were partially offset by increases in the average balance of securities sold under agreements to repurchase and capital markets trading liabilities of $64.7 million and $53.8 million, respectively. Average certificates of deposit (CDs) greater than $100,000 increased $24.1 million in 2013, as CDs acquired as part of the MNB acquisition more than offset a decline in jumbo public fund and corporate CDs. On average, short-term purchased funds accounted for 14 percent of FHN s funding (core deposits plus short-term purchased funds and term borrowings) in 2013 compared to 18 percent in 2012.

Term Borrowings

Term borrowings include senior and subordinated borrowings and advances with original maturities greater than one year. On September 30, 2013, term borrowings were $1.8 billion compared to $2.3 billion on September 30, 2012. Average term borrowings decreased 21 percent to $1.8 billion in 2013 from $2.3 billion in 2012. The decline in average term borrowings primarily relates to $350.0 million of subordinated notes that matured during the second quarter of 2013, a decline in restricted/secured borrowings due to regular principal pay downs, and a decline in the fair value of derivatives hedging debt.

CAPITAL

Management s objectives are to provide capital sufficient to cover the risks inherent in FHN s businesses, to maintain excess capital to well-capitalized standards, and to assure ready access to the capital markets. Period-end equity was $2.4 billion on September 30, 2013 compared to $2.5 billion on September 30, 2012. The decrease in period-end equity was driven by the repurchase of shares under the share repurchase program mentioned below, a decline in unrealized gains associated with the AFS securities portfolio within accumulated other comprehensive income, and the impact of the 2013 net loss on retained earnings, partially offset by the first quarter 2013 issuance of $100

million of Series A non-cumulative perpetual preferred stock (approximately $96 million net of offering costs). Average equity declined $48.4 million, to $2.5 billion in 2013.

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In fourth quarter 2011, FHN launched a share repurchase program which enabled FHN to repurchase its common stock in the open market or in privately negotiated transactions, subject to market conditions. As of September 30, 2013, this program authorizes total purchases of up to $300 million. Since inception through September 30, 2013, FHN has repurchased $262.7 million of common shares under this program.

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

Table 8 Regulatory Capital and Ratios

(Dollars in thousands)	**September 30, 2013**	September 30, 2012	December 31, 2012
Shareholder s equity	**$ 2,137,862**	$ 2,236,723	$ 2,214,041
Regulatory adjustments:			
Goodwill and other intangibles	**(132,517)**	(131,850)	(128,639)
Net unrealized (gains)/losses on AFS securities	**(11,164)**	(63,923)	(55,250)
Minimum pension liability	**187,544**	180,607	201,593
Noncontrolling interest FTBNA preferred stock	**294,816**	294,816	294,816
Trust preferred	**200,000**	200,000	200,000
Disallowed servicing assets	**(7,477)**	(8,192)	(7,638)
Disallowed deferred tax assets	**(113,485)**	(66,355)	(77,714)
Other	**(438)**	(434)	(433)
Tier 1 capital	**$ 2,555,141**	$ 2,641,392	$ 2,640,776
Tier 2 capital	**449,578**	570,429	571,232
Total regulatory capital	**$ 3,004,719**	$ 3,211,821	$ 3,212,008

	September 30, 2013		September 30, 2012		December 31, 2012	
	Ratio	**Amount**	Ratio	Amount	Ratio	Amount
Tier 1						
First Horizon National Corporation	**13.26%**	**$ 2,555,141**	13.15%	$ 2,641,392	13.10%	$ 2,640,776
First Tennessee Bank National Association (a)	**15.29**	**2,922,639**	15.46	3,080,650	15.64	3,122,204
Total						
First Horizon National Corporation	**15.59**	**3,004,719**	15.99	3,211,821	15.94	3,212,008
First Tennessee Bank National Association (a)	**17.64**	**3,370,157**	18.31	3,649,130	18.49	3,691,056
Tier 1 Common (b)						
First Horizon National Corporation	**10.19**	**1,964,701**	10.69	2,146,576	10.65	2,145,960

(a) Excluding financial subsidiaries, FTBNA s Tier 1 and Total Capital ratios were 14.82 percent and 16.24 percent, respectively, at September 30, 2013.

(b) Refer to the Non-GAAP to GAAP Reconciliation Table 24.

Banking regulators define minimum capital ratios for bank holding companies and their bank subsidiaries. Based on the capital rules and definitions prescribed by the banking regulators, should any depository institution s capital ratios decline below predetermined levels, it would become subject to a series of increasingly restrictive regulatory actions. The system categorizes a depository institution s capital position into one of five categories ranging from well-capitalized to critically under-capitalized. For an institution to qualify as well-capitalized, Tier 1 Capital, Total Capital, and Leverage capital ratios must be at least 6 percent, 10 percent, and 5 percent, respectively. As of September 30, 2013, FHN and FTBNA had sufficient capital to qualify as well-capitalized institutions. Most capital ratios declined in 2013 relative to 2012 due to the impacts of the 2013 net loss on retained earnings, share repurchases and the related dividend from FTBNA to FHN, as well as the adoption of the revised Market Risk Capital Rules which required FHN and FTBNA to change the methodology for calculating the risk-weighted assets related to trading assets. These negative impacts were partially offset in Tier 1 Capital and Total Capital for FHN due to the positive impact of the preferred stock issuance in first quarter 2013. The Total Capital ratio for both FHN and FTBNA were negatively impacted by a reduction in the

amount of Tier 2 qualifying subordinated debt as that debt approaches maturity. Through 2013 and into 2014, capital ratios are expected to remain strong and significantly above current well-capitalized standards. Refer to the discussion of rules that will impact capital ratios for the industry in the Market Uncertainties and Prospective Trends section of MD&A.

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Pursuant to board authority, FHN may repurchase shares of its common stock from time to time and will evaluate the level of capital and take action designed to generate or use capital, as appropriate, for the interests of the shareholders, subject to legal and regulatory restrictions. FHN s board has not authorized a preferred stock purchase program. The following tables provide information related to securities repurchased by FHN during third quarter 2013:

Table 9 Issuer Purchases of Common Stock

Compensation Plan-Related Repurchase Authority:

(Volume in thousands)	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs	Maximum number of shares that may yet be purchased under the programs
2013				
July 1 to July 31	*	$ 12.09	*	31,838
August 1 to August 31	N/A	N/A	N/A	31,838
September 1 to September 30	51	11.06	51	31,787
Total	52	**$ 11.06**	52	

N/A Not applicable

* Amount is less than 1

Compensation Plan Programs:

A consolidated compensation plan share purchase program was announced on August 6, 2004. This plan consolidated into a single share purchase program all of the previously authorized compensation plan share programs as well as the renewal of the authorization to purchase shares for use in connection with two compensation plans for which the share purchase authority had expired. The total amount authorized under this consolidated compensation plan share purchase program, inclusive of a program amendment announced on April 24, 2006, is 29.6 million shares calculated before adjusting for stock dividends distributed through January 1, 2011. The authorization has been reduced for that portion which relates to compensation plans for which no options remain outstanding. The shares may be purchased over the option exercise period of the various compensation plans on or before December 31, 2023. On September 30, 2013, the maximum number of shares that may yet be purchased under the program was 31.8 million shares. Purchases may be made in the open market or through privately negotiated transactions and are subject to market conditions, accumulation of excess equity, prudent capital management, and legal and regulatory restrictions. Management currently does not anticipate purchasing a material number of shares under this authority during 2013.

Other Repurchase Authority:

(Dollar values and volume in thousands, except per share data)	Total number of shares purchased	Average price paid per share (a)	Total number of shares purchased as part of publicly announced programs	Maximum approximate dollar value that may yet be purchased under the programs

2013						
July 1 to July 31	N/A		N/A	N/A	$	86,958
August 1 to August 31	3,528	$	11.34	3,528	$	46,958
September 1 to September 30	854		11.32	854	$	37,289
Total	**4,382**	**$**	**11.34**	**4,382**		

N/A Not applicable

(a) Represents total costs including commissions paid. Average price paid per share for the quarter was $11.33 excluding commissions.
Other Programs:

On October 17, 2011, FHN announced a $100 million share purchase authority that would expire on August 31, 2012. As of September 30, 2013, the share purchase authority had been increased to $300 million and the expiration had been extended to January 31, 2014. The repurchases reported for the third quarter 2013 include the settlement of the $40 million prepaid share repurchase arrangement FHN entered into in second quarter 2013. As of September 30, 2013, $262.7 million in purchases had been made under this authority at an average price per share of $9.26, or $9.24 excluding commissions. Purchases may be made in the open market or through privately negotiated transactions and will be subject to market conditions, accumulation of excess equity, prudent capital management, and legal and regulatory restrictions.

ASSET QUALITY Trend Analysis of third quarter 2013 to third quarter 2012

Loan Portfolio Composition

FHN groups its loans into portfolio segments based on internal classifications reflecting the manner in which the ALLL is established and how credit risk is measured, monitored, and reported. From time to time, and if conditions are such that certain subsegments are uniquely affected by economic or market conditions or are experiencing greater deterioration than other components of the loan portfolio, management may determine the ALLL at a more granular level. Commercial loans are composed of commercial, financial, and industrial (C&I) and commercial real estate (CRE). Retail loans are composed of consumer real estate; permanent mortgage;

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and credit card and other. FHN has a concentration of loans secured by residential real estate (40 percent of total loans), the majority of which is in the consumer real estate portfolio (35 percent of total loans). Industry concentrations are discussed under the heading C&I below. Key asset quality metrics for each of these portfolios can be found in Table 12 Asset Quality by Portfolio.

As economic and real estate conditions develop, enhancements to underwriting and credit policies and guidelines may be necessary or desirable. Credit underwriting guidelines are outlined in Exhibit 13 to FHN s 2012 Annual Report on Form 10-K in the Loan Portfolio Composition discussion in the Asset Quality Section beginning on page 27 and continuing to page 35. There were no material changes to FHN s credit underwriting guidelines or significant changes or additions to FHN s product offerings in third quarter 2013.

On June 7, 2013, FHN acquired substantially all of the assets and liabilities of MNB from the FDIC. The acquisition included approximately $249 million of loans. These loans were initially recorded at fair value which incorporates expected credit losses in accordance with Accounting Standards Codification Topic related to Business Combinations (ASC 805) resulting in no carryover of allowance for loan loss from the acquiree. See Note 2 Acquisitions and Divestitures and Note 4 Loans for additional information regarding the acquisition.

At acquisition, FHN designated certain loans as purchase credit impaired (PCI) loans. PCI loans are loans that have experienced deterioration of credit quality between origination and the time of acquisition and for which the timely collection of the interest and principal is no longer reasonably assured. PCI loans were identified based on a review of the current performance status, asset quality indicators, and internal risk grades. On September 30, 2013, the unpaid principal balance and the carrying value of PCI loans were $67.2 million and $48.8 million, respectively. These loans were initially recorded at fair value which was estimated by discounting expected cash flows at acquisition date. The expected cash flows include all contractually expected amounts (including interest) and incorporate an estimate for future expected credit losses, pre-payment assumptions, and yield requirement for a market participant, among other things. Generally, PCI loans will not be reported as nonperforming loans, troubled debt restructurings (if pooled), or impaired loans unless there has been an other-than-temporary decline in the fair value of a loan below amortized cost or if it is probable that a loan has become impaired in periods subsequent to the acquisition. A majority of the PCI loans are included in the commercial real estate portfolio segment.

The following is a description of each portfolio:

COMMERCIAL LOAN PORTFOLIOS

C&I

The C&I portfolio was $7.7 billion on September 30, 2013, and is comprised of loans used for general business purposes and primarily composed of relationship customers in Tennessee and certain neighboring states that are managed within the regional bank. Typical products include working capital lines of credit, term loan financing of owner-occupied real estate and fixed assets, and trade credit enhancement through letters of credit. Table 10 provides the composition of the C&I portfolio by industry as of September 30, 2013 and 2012. For purposes of this disclosure, industries are determined based on the North American Industry Classification System (NAICS) industry codes used by Federal statistical agencies in classifying business establishments for the collection, analysis, and publication of statistical data related to the U.S. business economy.

Table 10 C&I Loan Portfolio by Industry

	September 30, 2013		September 30, 2012	
(Dollars in thousands)	**Amount**	**Percent**	Amount	Percent
Industry:				
Finance & insurance	**$ 1,603,286**	**21%**	$ 1,572,599	19%
Healthcare	**766,046**	**10**	624,967	7
Loans to mortgage companies	**732,701**	**9**	1,636,683	19
Manufacturing	**689,042**	**9**	662,775	8
Wholesale trade	**650,013**	**8**	681,523	8
Retail trade	**483,889**	**6**	488,242	6
Real estate rental & leasing (a)	**485,810**	**6**	435,299	5
Other (transportation, education, arts, entertainment, etc) (b)	**2,336,155**	**31**	2,364,362	28
Total C&I loan portfolio	**$ 7,746,942**	**100%**	$ 8,466,450	100%

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

As of September 30, 2013, finance and insurance, the largest component, represents 21 percent of the C&I portfolio. The healthcare industry balances have grown to 10 percent of the C&I portfolio, as FHN has been strategically focused on growing several components within the healthcare industry. The balances of loans to mortgage companies were 9 percent of the C&I portfolio and include volumes related to both home purchase and refinance activity. This portfolio class, which generally fluctuates with mortgage

rates, includes commercial lines of credit to qualified mortgage companies exclusively for the temporary warehousing of eligible mortgage loans prior to the borrower s sale of those mortgage loans to third party investors. Generally, lending to mortgage lenders increases when there is a decline in mortgage rates and decreases when rates rise. Significant loan concentrations are considered to exist for a financial institution when there are loans to numerous borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. Thirty percent of the C&I category was sensitive to impacts on the financial services industry. Except as discussed, on September 30, 2013, FHN did not have any other concentrations of C&I loans in any single industry of 10 percent or more of total loans.

Finance and Insurance

The finance and insurance component of the C&I portfolio, which includes bank-related loans and TRUPs (i.e., long term unsecured loans to bank and insurance-related businesses), has been stressed in prior years but has seen the stronger borrowers stabilize as there have been upgrades within the TRUPs and bank stock portfolio. The finance and insurance category also includes approximately $700 million of asset-based lending to consumer finance companies.

TRUPs lending was originally extended as a form of bridge financing to participants in the pooled trust preferred securitization program offered primarily to smaller banking (generally less than $15 billion in total assets) and insurance institutions through FHN s capital markets business. Origination of TRUPs lending ceased in early 2008. Individual TRUPs are re-graded at least quarterly as part of FHN s commercial loan review process. Typically, the terms of these loans include a prepayment option after a 5 year initial term (with possible triggers of early activation), have a scheduled 30 year balloon payoff, and include an option to defer interest for up to 20 consecutive quarters. As of September 30, 2013, five TRUPs relationships have elected interest deferral, down from seven in 2012. Since third quarter 2012, one TRUP that was on interest deferral was sold while another was redeemed in third quarter 2013. The average size of a trust preferred loan is approximately $9 million.

As of September 30, 2013, the UPB of trust preferred loans totaled $402.3 million ($246.0 million of bank TRUPs and $156.3 million of insurance TRUPs) with the UPB of other bank-related loans totaling $85.7 million. Inclusive of a remaining lower of cost or market (LOCOM) valuation allowance on TRUPs of $29.4 million, total reserves (ALLL plus the LOCOM) for TRUPs and other bank-related loans were $44.3 million or 9 percent of outstanding UPB.

C&I Asset Quality Trends

During 2013, performance of the C&I portfolio continued to improve although at a slower pace than in 2012, with a positive shift in the risk rating assignments and lower loss rates as commercial borrowers continue to adapt to the current operating environment and net charge-offs have remained relatively low. As a result, the ALLL declined $15.2 million to $91.4 million as of September 30, 2013. The allowance as a percentage of period-end loans declined to 1.18 percent in 2013 from 1.26 percent in 2012. The decline was related to a lower ALLL because of improvement from a year ago. Allowance to net charge-offs increased to 14.16 percent from 5.17 percent in third quarter 2012 due to a decrease in net charge-offs. Net charge-offs as a percentage of average loans decreased to 0.08 percent from 0.25 percent. Nonperforming C&I loans decreased $47.9 million to $102.7 million on September 30, 2013. The sale and redemption of two TRUP loans that were on interest deferral amounting to $16.1 million (including LOCOM) contributed to this decline. The nonperforming loan (NPL) ratio decreased to 1.33 percent in 2013 from 1.78 percent in 2012.

Commercial Real Estate

The CRE portfolio was $1.2 billion on September 30, 2013. Balances between the periods were affected by run-off which more than offset the loans acquired from MNB. This portfolio is segregated between income CRE loans which contain loans, lines, and letters of credit to commercial real estate developers for the construction and mini-permanent financing of income-producing real estate, and residential CRE loans. Subcategories of income CRE consist of apartments (25 percent), retail (22 percent), office (14 percent), industrial (11 percent), hospitality (11 percent), land/land development (6 percent), and other (11 percent). A substantial portion of the income CRE class was originated through and continues to be managed by the regional bank. The income CRE loans showed improvement as property stabilization and strong sponsors have positively affected performance. FHN does not capitalize interest or fund interest on distressed properties. The residential CRE class includes loans to residential builders and developers for the purpose of constructing single-family detached homes, condominiums, and town homes.

Originations for the residential CRE loans through national construction lending ceased in early 2008 and balances have steadily decreased since that time. Active lending in the regional banking footprint is minimal with nearly all new originations limited to tactical advances to facilitate workout strategies with existing clients and selected new transactions with strategic clients. FHN considers a strategic residential CRE borrower as a homebuilder within the regional banking footprint who remained profitable during the down cycle.

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CRE Asset Quality Trends

Performance of CRE loans improved in third quarter 2013 as market conditions improved and sponsors and guarantors provided additional financial support to borrowers as needed. Allowance as a percentage of loans decreased to .94 percent in 2013 from 2.22 percent in 2012. Outstanding balances declined 5 percent from third quarter 2012 and the level of allowance declined $16.4 million from 2012 to $11.0 million in third quarter 2013. A small amount of net recoveries were recognized in 2013 and net charge-offs were $3.2 million in 2012. The level of nonperforming loans decreased 61 percent to $25.0 million as of September 30, 2013, or to 2.13 percent of total CRE loans. The decline in nonperforming loans is primarily attributable to the regional banking portion of the portfolio. Delinquencies were up slightly which was largely related to CRE loans acquired from MNB.

RETAIL LOAN PORTFOLIOS

Regulatory Focus on Consumer Loan Accounting and Reporting

In first quarter 2012, the OCC issued interagency guidance related to ALLL estimation and nonaccrual practices, and risk management policies related to junior lien loans. As a result, FHN modified its nonaccrual policies in first quarter 2012 to place current second liens on nonaccrual if the first lien is owned or serviced by FHN and is 90 or more days past due. For non FHN-serviced first liens, beginning in second quarter 2013, FHN received information from a third party vendor regarding the performance status of those first liens and placed stand-alone second liens on nonaccrual if the first lien was 90 days or more past due or had been modified. Nonperforming loans for the quarter ended September 30, 2013 as a result of fully implementing this regulatory guidance, were approximately $65 million and were largely concentrated in the consumer real estate portfolio.

In third quarter 2012, the OCC clarified that residential real estate loans in which personal liability has been discharged through Chapter 7 bankruptcy and not reaffirmed by the borrower are collateral dependent and should be reported as nonaccruing TDRs. As a result, FHN charged-down such loans to the net realizable value of the collateral and the remaining balances were reported as nonaccruing TDRs regardless of the loan s delinquency status. With the implementation of this guidance, provision expense increased by approximately $30 million and net charge-offs increased by $40.0 million in third quarter 2012.

Because of the composition of FHN s residential real estate portfolios, these changes most significantly impacted the consumer real estate portfolio segment. The level of nonperforming loans and TDRs in the consumer real estate and permanent mortgage portfolios were affected by these regulatory actions as of September 30, 2013, relative to September 30, 2012, amounts.

Consumer Real Estate

The consumer real estate portfolio was $5.5 billion on September 30, 2013, and is primarily composed of home equity lines and installment loans including restricted and secured balances (loans consolidated per amendments to ASC 810 and on-balance sheet securitizations). The largest geographical concentrations of balances as of September 30, 2013, are in Tennessee (54 percent) and California (about 10 percent) with no other state representing greater than 3 percent of the portfolio. At origination, approximately 50 percent of the consumer real estate portfolio was in a first lien position. At origination, the weighted average original FICO score of this portfolio was 743 and refreshed FICO scores averaged 735 as of September 30, 2013. Generally, performance of this portfolio is affected by life events when borrowers have been impacted, the level of unemployment, and home prices.

HELOCs comprise $2.9 billion of the consumer real estate portfolio. FHN s HELOCs typically have a 5 or 10 year draw period followed by a 15 or 10 year repayment period, respectively. During the draw period, a borrower is able to draw on the line and is only required to make interest payments. The line is automatically frozen if a borrower becomes 45 days or more past due on payments. Once the draw period has concluded, the line is closed and the borrower is required to make both principal and interest payments monthly until the loan matures. The principal payment generally is fully amortizing, but payment amounts will adjust when variable rates reset to reflect changes in the prime rate.

As of September 30, 2013, approximately 75 percent of FHN s HELOCs are in the draw period. Based on when draw periods are scheduled to end per the line agreement, it is expected that $1.6 billion, or 71 percent of HELOCs currently in the draw period will have entered the repayment period during the next 60 months. Delinquencies and charge-off rates for HELOCs that have entered the repayment period are higher than HELOCs still in the draw period because of the increased minimum payment requirement; however, after some seasoning, loans in the repayment period tend to perform like the remainder of the portfolio. The following table shows the HELOCs currently in the draw period and expected timing of conversion to the repayment period.

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Table 11 HELOC Draw To Repayment Schedule

	September 30, 2013		September 30, 2012	
(Dollars in thousands)	**Repayment Amount**	**Percent**	Repayment Amount	Percent
Months remaining in draw period:				
0-12	**$ 233,544**	**11%**	$ 235,092	9%
13-24	**409,135**	**19%**	283,918	11%
25-36	**329,839**	**15%**	451,996	17%
37-48	**373,098**	**17%**	367,704	14%
49-60	**221,635**	**10%**	454,641	17%
>60	**633,926**	**28%**	833,574	32%
Total	**$ 2,201,177**	**100%**	$ 2,626,925	100%

Consumer Real Estate Asset Quality Trends

Overall, performance of the consumer real estate portfolio improved in third quarter 2013 when compared with 2012 as the higher-risk non-strategic portfolio runs off and is replaced by new, higher-quality originations within the regional bank. However the implementation of regulatory changes in 2012 and continuing into 2013 somewhat offset improvement in certain asset quality metrics. The ALLL increased $4.9 million to $120.8 million in 2013 driven by increase in TDR reserves from a year ago. The allowance as a percentage of loans increased 19 basis points to 2.21 percent of loans as of September 30, 2013 driven by run-off of the balances combined with an increase in the ALLL. The balance of nonperforming loans was $122.0 million and $55.3 million as of September 30, 2013 and 2012, respectively. As of September 30, 2013, NPL s include approximately $65 million related to the impact of placing stand-alone second liens on nonaccrual if the first lien is 90 or more days past due or has been modified. Loans delinquent 30 or more days and still accruing improved to 1.05 percent of the consumer real estate portfolio in third quarter 2013 compared to 1.46 percent in 2012 primarily due to runoff of the non-strategic segment and new originations within the bank to strong borrowers, loss mitigation activities and improved overall performance. The net charge-offs ratio decreased 367 basis points to .87 percent of average loans. While a majority of the decline from third quarter 2012 related to the implementation of regulatory guidance for discharged bankruptcies, there was also improved borrower performance as well as stronger underlying collateral values.

Permanent Mortgage

The permanent mortgage portfolio was $.7 billion on September 30, 2013. In first quarter 2013 and third quarter 2012, FHN exercised cleanup calls related to first lien securitizations resulting in the addition of mortgage loans to this portfolio, substantially all of which were performing upon exercise. Natural run-off combined with the impact of the exercise of cleanup calls resulted in a net decrease in portfolio balances of $107.8 million from 2012. This portfolio is primarily composed of jumbo mortgages and one-time-close (OTC) completed construction loans that were originated through legacy businesses. Approximately 25 percent of loan balances are in California, but the remainder of the portfolio is somewhat geographically diverse.

The ALLL remained flat at $25.6 million as of September 30, 2013. Troubled debt restructuring (TDR) reserves comprise a significant majority of the ALLL for the permanent mortgage portfolio. Accruing delinquencies decreased by $5.7 million to $17.3 million. NPLs increased by $2.9 million to $37.0 million in 2013 from 2012, mainly due to loans acquired through exercise of cleanup calls in third quarter 2012 and first quarter 2013 that were delinquent and migrated to NPL status in third quarter 2013. Net charge-offs decreased $1.6 million to $.5 million during 2013.

Credit Card and Other

The credit card and other portfolios were $.3 billion on September 30, 2013, and primarily include credit card receivables, automobile loans, and to a lesser extent OTC construction loans and other consumer-related credits. In 2013, FHN charged-off $2.1 million of credit card and other consumer loans compared with $2.4 million during 2012. The allowance increased slightly to $7.0 million as of September 30, 2013. Loans 30 days or more delinquent decreased from 1.43 percent in 2012 to 1.11 percent in 2013.

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

Table 12 Asset Quality by Portfolio

	September 30	
	2013	**2012**
Key Portfolio Details		
C&I		
Period-end loans ($ millions)	**$ 7,747**	$ 8,466
30+ Delinq. % (a)	**0.11%**	0.30%
NPL %	**1.33**	1.78
Charge-offs % (qtr. annualized)	**0.08**	0.25
Allowance / loans %	**1.18%**	1.26%
Allowance / charge-offs	**14.16x**	5.17x
Commercial Real Estate (b)		
Period-end loans ($ millions)	**$ 1,174**	$ 1,230
30+ Delinq. % (a)	**0.60%**	0.26%
NPL %	**2.13**	5.18
Charge-offs % (qtr. annualized)	**NM**	1.00
Allowance / loans % (c)	**0.94%**	2.22%
Allowance / charge-offs	**NM**	2.14x
Consumer Real Estate		
Period-end loans ($ millions)	**$ 5,458**	$ 5,736
30+ Delinq. % (a)	**1.05%**	1.46%
NPL % (d)	**2.23**	0.96
Charge-offs % (qtr. annualized) (e)	**0.87**	4.54
Allowance / loans %	**2.21%**	2.02%
Allowance / charge-offs (e)	**2.54x**	0.44x
Permanent Mortgage		
Period-end loans ($ millions)	**$ 698**	$ 806
30+ Delinq. % (a)	**2.48%**	2.86%
NPL %	**5.30**	4.22
Charge-offs % (qtr. annualized)	**0.29**	1.06
Allowance / loans %	**3.66%**	3.17%
Allowance / charge-offs	**12.26x**	2.98x
Credit Card and Other		
Period-end loans ($ millions)	**$ 332**	$ 286
30+ Delinq. % (a)	**1.11%**	1.43%
NPL %	**0.42**	0.64
Charge-offs % (qtr. annualized)	**2.61**	3.37
Allowance / loans %	**2.09%**	2.22%
Allowance / charge-offs	**0.82x**	0.68x

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

Loans are expressed net of unearned income.

(a) 30+ Delinquency % includes all accounts delinquent more than one month and still accruing interest.
(b) Third quarter 2013 includes $136.4 million related to MNB acquisition.
(c) Third quarter 2013 decline is primarily related to MNB loans that were acquired at fair value and that do not carry allowance.
(d) Third quarter 2013 NPL levels affected by the impact of placing second liens on nonaccrual based on third party data obtained on the performance status of non-FHN serviced first liens in second quarter 2013.
(e) Third quarter 2012 includes the impact of charge-offs associated with the implementation of regulatory guidance related to discharged bankruptcies.

Allowance for Loan Losses

Management s policy is to maintain the ALLL at a level sufficient to absorb estimated probable incurred losses in the loan portfolio. The total allowance for loan losses decreased 9 percent to $255.7 million on September 30, 2013, from $281.7 million on September 30, 2012. The allowance attributable to individually impaired loans was $74.6 million compared to $81.7 million on September 30, 2013 and 2012, respectively. Continued aggregate improvement in borrowers financial conditions in 2013 contributed to the decline in the ALLL from a year ago. The overall portfolio composition has changed with about a $675 million decline in the non-strategic balances from third quarter 2012. As loans with higher levels of probable incurred loss content have been removed from the portfolio, the allowance estimate results in lower required reserves. Additionally, the remaining portfolio has improved as commercial problem loan borrowers continue to adapt to the operating environment, FHN has been proactively identifying and working with problem borrowers. The ratio of allowance for loan losses to total loans, net of unearned income, decreased to 1.66 percent on September 30, 2013, from 1.71 percent on September 30, 2012.

The provision for loan losses is the charge to earnings necessary to maintain the ALLL at a sufficient level reflecting management s estimate of probable incurred losses in the loan portfolio. The provision for loan losses decreased to $40.0 million in 2013 from $63.0 million in 2012. Approximately $30 million of the third quarter 2012 provision was associated with implementation of regulatory guidance related to discharged bankruptcies.

FHN expects asset quality trends to be relatively stable for the remainder of 2013 and into early 2014; that expectation depends upon a continued economic recovery, among other things, which may or may not occur. The C&I portfolio is expected to continue to show positive trends but the rate of improvement will likely continue to slow and short-term variability is possible. The CRE portfolio should be relatively stable as FHN has observed property values stabilizing and guarantors have demonstrated willingness and improved capacity to support borrowers. The remaining non-strategic consumer real estate and permanent mortgage portfolios should continue to wind down and will have less of an impact on the overall credit metrics in the future in comparison to prior periods. Continued improvement in performance of the consumer real estate portfolio assumes an ongoing economic recovery as consumer delinquency and loss rates are highly correlated with unemployment trends and strength of the housing market.

Consolidated Net Charge-offs

Net charge-offs were $16.2 million in third quarter 2013 compared with $79.3 million in 2012. The ALLL was 3.97 times net charge-offs for 2013 compared with .89 times net charge-offs for 2012 and the net charge-offs to average loans ratio decreased from 1.92 percent in 2012 to 0.41 percent in 2013 due to a 80 percent decline in net charge-offs. $40.0 million of consumer net charge-offs recognized in third quarter 2012 was associated with the implementation of regulatory guidance related to discharged bankruptcies. Net charge-offs for all the portfolios declined in 2013 and were primarily attributable to improved performance of the loan portfolio and continued reduction of the non-strategic portfolio.

Commercial loan net charge-offs were $1.6 million in 2013 compared to $8.4 million due to both lower charge-offs and higher recoveries.

The retail portfolios contributed to a $56.2 million decline in consolidated net charge-offs. Net charge-offs of consumer real estate loans declined $54.4 million to $12.0 million in third quarter 2013, with the majority attributable to the non-strategic segment. The decline was due in part to improvement in the portfolio but also because 2012 included approximately $40 million of charge-offs associated with discharged bankruptcies. Permanent mortgage net charge-offs declined $1.6 million and credit card and other net charge-offs decreased $.2 million from a year ago.

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The following table provides consolidated asset quality information for the three months ended September 30, 2013 and 2012:

Table 13 Asset Quality Information

	Three Months Ended September 30	
(Dollars in thousands)	**2013**	2012
Allowance for loan losses:		
Beginning balance on June 30	**$ 261,934**	$ 321,051
Provision for loan losses (a)	**10,000**	40,000
Charge-offs (b)	**(26,046)**	(87,022)
Recoveries	**9,822**	7,715
Ending balance on September 30 (Restricted -$3.2 million on September 30, 2013, and $4.4 million on September 30, 2012)	**$ 255,710**	$ 281,744
Reserve for remaining unfunded commitments	**2,956**	4,572
Total allowance for loan losses and reserve for unfunded commitments	**$ 258,666**	$ 286,316

	As of September 30	
	2013	2012
Nonperforming Assets by Segment		
Regional Banking:		
Nonperforming loans (c)	**$ 118,507**	$ 152,477
Foreclosed real estate (d) (e)	**33,593**	16,000
Total Regional Banking	**152,100**	168,477
Non-Strategic:		
Nonperforming loans (c)	**164,534**	150,635
Nonperforming loans held-for-sale before fair value adjustment (f)	**143,972**	94,265
Foreclosed real estate (d)	**16,437**	34,589
Total Non-Strategic	**324,943**	279,489
Corporate:		
Nonperforming loans (g)	**5,001**	2,426
Total Corporate	**5,001**	2,426
Total nonperforming assets	**$ 482,044**	$ 450,392
Loans and commitments:		
Total period-end loans, net of unearned income (Restricted $.1 billion on September 30, 2013 and 2012)	**$ 15,408,556**	$ 16,523,783
Less: Insured retail residential and construction loans (h)	**(23,349)**	(48,067)
Loans excluding insured loans	**$ 15,385,207**	$ 16,475,716
Foreclosed real estate from government insured mortgages	**21,596**	20,190
Potential problem assets (i)	**412,435**	569,960
Loans 30 to 89 days past due	**60,324**	100,493

Loans 30 to 89 days past due guaranteed portion (j)	**139**	59
Loans 90 days past due	**33,846**	38,990
Loans 90 days past due guaranteed portion (j)	**371**	128
Loans held-for-sale 30 to 89 days past due	**18,000**	16,888
Loans held-for-sale 30 to 89 days past due guaranteed portion (j)	**12,114**	10,327
Loans held-for-sale 90 days past due	**47,077**	43,963
Loans held-for-sale 90 days past due guaranteed portion (j)	**41,574**	35,397
Remaining unfunded commitments (millions)	**9,048**	7,891
Average loans, net of unearned (Restricted $.1 billion on September 30, 2013 and 2012)	**$ 15,651,813**	$ 16,412,305
Allowance and net charge-off ratios		
Allowance to total loans	1.66%	1.71%
Allowance to nonperforming loans in the loan portfolio	**0.89x**	0.92x
Allowance to loans excluding insured loans	**1.66%**	1.71%
Allowance to annualized net charge-offs (b)	**3.97x**	0.89x
Nonperforming assets to loans and foreclosed real estate (k)	**2.19%**	2.15%
Nonperforming loans in the loan portfolio to total loans, net of unearned income	**1.87%**	1.85%
Total annualized net charge-offs to average loans (b) (l)	**0.41%**	1.92%

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

(a) Third quarter 2012 includes approximately $30 million of loan loss provision associated with implementation of regulatory guidance.

(b) Third quarter 2012 includes approximately $40 million of charge-offs associated with implementation of regulatory guidance.
(c) Third quarter 2013 includes the impact of placing second liens on nonaccrual in second quarter 2013 based on third party data obtained on the performance status of non-FHN serviced first liens.
(d) Excludes foreclosed real estate from government-insured mortgages.
(e) Third quarter 2013 includes approximately $21 million of MNB foreclosed real estate.
(f) The average negative fair value mark was approximately 53% of unpaid principal balance as of third quarter 2013 and 2012.
(g) Third quarter 2013 increase related to loans acquired through the exercise of clean-up calls in third quarter 2012 and first quarter 2013 that have migrated to NPL status.
(h) Whole-loan insurance has been obtained on certain retail residential and construction loans.
(i) Includes past due loans.
(j) Guaranteed loans include FHA, VA, and GNMA loans repurchased through the GNMA buyout program.
(k) Ratio is non-performing assets related to the loan portfolio to total loans plus foreclosed real estate and other assets.
(l) Net charge-off ratio is annualized net charge-offs divided by quarterly average loans, net of unearned income.

Nonperforming Assets

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

Total nonperforming assets (including NPLs HFS) increased to $482.0 million on September 30, 2013, from $450.4 million on September 30, 2012. Nonperforming assets (excluding NPLs HFS) decreased to $338.1 million on September 30, 2013, from $356.1 million on September 30, 2012. The nonperforming assets ratio (nonperforming assets excluding NPLs HFS to total period-end loans plus foreclosed real estate and other assets) increased to 2.19 percent in 2013 from 2.15 percent in 2012 due to a 7 percent decline in total loans in 2013. Portfolio nonperforming loans declined $17.5 million to $288.0 million on September 30, 2013, largely driven by improvement in the commercial portfolios that was partially offset by the increase in the consumer portfolio related to the impact of continued implementation of regulatory guidance related to junior lien loans.

Nonperforming C&I loans decreased to $102.7 million in 2013 from $150.6 million in 2012. Commercial real estate NPLs decreased $38.7 million to $25.0 million in 2013. Consumer nonperforming loans increased to $160.3 million from $91.2 million in 2012, with $66.6 million of the increase related to the consumer real estate portfolio. The increase in nonperforming loans within the consumer portfolio was the result of the impact of placing second liens on nonaccrual based on third party data obtained on the performance status of non-FHN serviced first liens in second quarter 2013. Nonperforming loans classified as HFS increased $49.7 million to $144.0 million before negative fair value adjustments of $78.0 million on September 30, 2013. Loans in HFS are recorded at elected fair value or lower of cost or market and do not carry reserves. The increase in nonperforming loans HFS are due to higher GSE repurchase activity a majority of which are severely delinquent at the time of repurchase.

The ratio of ALLL to NPLs in the loan portfolio decreased to .89 times in 2013 compared to .92 times in 2012 driven by lower allowance. Because individually impaired collateral dependent loans are charged down to net realizable value, this ratio becomes skewed as these loans are included in nonperforming loans but reserves for these loans are typically not carried in the ALLL as impairment is charged off. The individually impaired collateral dependent loans that do not carry reserves were $85.7 million on September 30, 2013, compared with $128.6 million on September 30, 2012. Consequently, NPLs in the loan portfolio for which reserves are actually carried were $202.4 million as of September 30, 2013. Charged-down individually impaired collateral dependent loans represented 30 percent of nonperforming loans in the loan portfolio as of September 30, 2013.

The balance of foreclosed real estate, exclusive of inventory from government insured mortgages, decreased to $50.0 million as of September 30, 2013, from $50.6 million as of September 30, 2012. Table 14 provides an activity rollforward of foreclosed real estate balances for September 30, 2013 and 2012. The inflows of assets into foreclosure status in 2013 were the result of the MNB foreclosed assets that were acquired during second quarter 2013. Excluding foreclosed assets acquired from MNB, both inflows of other assets into foreclosure and the amount disposed declined in 2013 when compared with 2012. The decline is primarily due to FHN s continued efforts to avoid foreclosures by restructuring loans and working with borrowers. Also contributing to this decline is industry response to scrutiny from regulators of the foreclosure practices of financial institutions and mortgage companies and delays in court proceedings in many states. Negative adjustments to the fair value of foreclosed assets decreased $4.6 million between the periods to $3.3 million in 2013. See the discussion of Foreclosure Practices in the Market Uncertainties and Prospective Trends section of MD&A for information regarding the impact on FHN.

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Table 14 Rollforward of Foreclosed Real Estate

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2013**	2012	**2013**	2012
Beginning balance (a) (b)	**$ 51,342**	$ 48,916	**$ 41,767**	$ 68,884
Valuation adjustments	**(327)**	(2,732)	**(3,279)**	(7,873)
New foreclosed property	**4,540**	11,901	**9,760**	25,986
Acquired foreclosed property (b)			**22,364**	
Capitalized expenses		181	**23**	589
Disposals:				
Single transactions	**(5,525)**	(7,677)	**(20,605)**	(33,953)
Bulk sales				(3,044)
Ending balance, September 30 (a)	**$ 50,030**	$ 50,589	**$ 50,030**	$ 50,589

a) Excludes foreclosed real estate related to government insured mortgages.

b) Beginning balance for three months ended September 30, 2013 and acquired foreclosed property for nine months ended September 30, 2013 have been re-presented due to purchase accounting adjustments made in third quarter 2013.

Past Due Loans and Potential Problem Assets

Past due loans are loans contractually past due 90 days or more as to interest or principal payments, but which have not yet been put on nonaccrual status. Loans in the portfolio that are 90 days or more past due decreased to $33.8 million on September 30, 2013, from $39.0 million on September 30, 2012. Loans 30 to 89 days past due decreased $40.2 million to $60.3 million on September 30, 2013. The decrease of past due loan balances are mainly due to loss mitigation activities and overall improvement in performance of the consumer real estate and C&I portfolios.

Potential problem assets represent those assets where information about possible credit problems of borrowers has caused management to have serious doubts about the borrower s ability to comply with present repayment terms. This definition is believed to be substantially consistent with the standards established by the Office of the Comptroller of the Currency (OCC) for loans classified substandard. Potential problem assets in the loan portfolio, which includes loans past due 90 days or more and still accruing, were $412.4 million on September 30, 2013, $410.1 million on June 30, 2013, and $570.0 million on September 30, 2012. The current expectation of losses from potential problem assets has been included in management s analysis for assessing the adequacy of the allowance for loan losses.

Troubled Debt Restructuring and Loan Modifications

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

Commercial Loan Modifications

As part of FHN s credit risk management governance processes, the Loan Rehab and Recovery Department (LRRD) is responsible for managing most commercial relationships with borrowers whose financial condition has deteriorated to such an extent that the credits are being considered for impairment, classified as substandard or worse, placed on nonaccrual status, foreclosed or in process of foreclosure, or in active or contemplated litigation. LRRD has the authority and responsibility to enter into workout and/or rehabilitation agreements with troubled commercial borrowers in order to mitigate and/or minimize the amount of credit losses recognized from these problem assets. The range of

commercial workout strategies utilized by LRRD to mitigate the likelihood of loan losses is commensurate with the degree of commercial credit quality deterioration. While every circumstance is different, LRRD will generally use forbearance agreements (generally 6-12 months) as an element of commercial loan workouts, which include reduced interest rates, reduced payments, release of guarantor in exchange for payment, or entering into short sale agreements. Senior credit management tracks classified loans and performs periodic reviews of such assets to understand FHN s interest in the borrower, the most recent financial results of the borrower, and the associated loss mitigation approaches and/or exit plans that have been developed for those relationships. After initial identification, relationship managers prepare regular updates for review and discussion by more senior business line and credit officers.

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

Consumer Loan Modifications

Although FHN does not currently participate in any of the loan modification programs sponsored by the U.S. government, FHN does modify consumer loans using the parameters of Home Affordable Modification Program (HAMP). Generally, a majority of loans modified under any such proprietary programs are classified as TDRs. In 2012, the OCC clarified that the discharge of personal liability through bankruptcy proceedings should be considered a concession as bankruptcy evidences financial difficulty. As a result, FHN classified all non-reaffirmed residential real estate loans discharged through Chapter 7 bankruptcy as nonaccruing TDRs beginning in third quarter 2012.

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

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

On September 30, 2013 and 2012, FHN had $385.3 million and $371.4 million portfolio loans classified as TDRs, respectively. For TDRs in the loan portfolio, FHN had loan loss reserves of $61.3 million and $60.0 million, or 16 percent of TDR balances, as of September 30, 2013 and 2012. Additionally, FHN had restructured $193.0 million and $171.9 million in UPB of loans HFS as of September 30, 2013 and 2012, respectively. The rise in TDRs from 2012 resulted from increased consumer loan modifications of troubled borrowers in an attempt to prevent foreclosure and to mitigate losses to FHN. The consumer real estate portfolio, permanent mortgage portfolio and HFS TDRs increased by $59.4 million which more than offset the decrease in the commercial portfolio TDRs of $24.1 million from a year ago.

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The following table provides a summary of TDRs for the periods ended September 30, 2013 and 2012:

Table 15 Troubled Debt Restructurings

(Dollars in thousands)	**As of September 30, 2013 Number**	**Amount**	As of September 30, 2012 Number	Amount
Held to maturity:				
Permanent mortgage:				
Current	**181**	**$ 102,371**	164	$ 93,078
Delinquent	**8**	**5,776**	8	5,814
Non-accrual (a)	**134**	**35,889**	131	31,815
Total permanent mortgage	**323**	**144,036**	303	130,707
Consumer real estate:				
Current	**1,159**	**123,104**	959	108,834
Delinquent	**59**	**5,691**	32	3,629
Non-accrual (b)	**1,165**	**41,606**	1,370	33,018
Total consumer real estate	**2,383**	**170,401**	2,361	145,481
Credit card and other:				
Current	**276**	**593**	344	853
Delinquent	**18**	**55**	23	60
Non-accrual				
Total credit card and other	**294**	**648**	367	913
Commercial loans:				
Current	**26**	**22,016**	35	29,851
Delinquent			6	3,903
Non-accrual	**53**	**48,220**	66	60,549
Total commercial loans	**79**	**70,236**	107	94,303
Total held to maturity	**3,079**	**385,321**	3,138	371,404
Held-for-sale: (c)				
Current	**460**	**101,462**	444	102,062
Delinquent	**189**	**36,948**	143	26,359
Non-accrual (d)	**231**	**54,627**	182	43,441
Total held-for-sale	**880**	**193,037**	769	171,862
Total troubled debt restructurings	**3,959**	**$ 578,358**	3,907	$ 543,266

(a) Balances as of September 30, 2013 and 2012 include $14.5 million and $13.3 million, respectively, of discharged bankruptcies.
(b) Balances as of September 30, 2013 and 2012 include $30.0 million and $21.8 million, respectively, of discharged bankruptcies.
(c)

Loans HFS are reported above at UPB and are accounted for at elected fair value. The average negative fair value mark was approximately 53% of UPB as of third quarter 2013 and 2012.

(d) Balances as of September 30, 2013 and 2012 include $27.6 million and $21.3 million, respectively, of discharged bankruptcies.

RISK MANAGEMENT

Except as discussed below, there have been no significant changes to FHN s risk management practices as described under Risk Management beginning on page 44 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2012, which section is incorporated into this report by this reference.

MARKET RISK MANAGEMENT

FHN is exposed to market risk related to the trading securities inventory maintained by its Capital Markets division in connection with its fixed income distribution activities. Market risk is the risk of loss in the value of the fixed income trading securities inventory due to changes in market prices. Various types of securities inventory positions are procured for distribution to customers by the sales staff. When these securities settle on a delayed basis, they are considered forward contracts. Refer to the Determination of Fair Value Trading securities and trading liabilities section of Note 17 Fair Value of Assets & Liabilities beginning on page 69 of this report, which section is incorporated into MD&A by this reference.

FHN s market risk appetite is approved by the Executive and Risk Committee of the Board of directors and executed through management policies and procedures of the Asset Liability Committee, (ALCO) and the FTN Financial Risk Committee. These policies contain various market risk limits including, for example, overall balance sheet size limits for Capital Markets, Value-at-Risk (VaR) limits for the trading securities inventory, and individual position limits and sector limits for products with credit risk, among others. Risk measures are computed and reviewed on a daily basis to ensure compliance with market risk management policies.

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VaR and Stress Testing

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

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

Table 16 VaR and SVaR Measures

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

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

Table 17 Schedule of Risks Included in VaR

	As of September 30, 2013	
(Dollars in Thousands)	1-day	10-day
Interest rate risk	$ 637	$ 1,845
Credit spread risk	772	2,367

The potential risk of loss reflected by FHN s VaR measures assumes the trading securities inventory is static. Because FHN s Capital Markets division procures fixed income securities for purposes of distribution to customers, its trading securities inventory turns over multiple times daily, on average. Additionally, Capital Markets traders actively manage the trading securities inventory continuously throughout each trading day. Accordingly, FHN s trading securities inventory is highly dynamic, rather than static. As a result, it would be rare for Capital Markets to incur a negative revenue day in its fixed income activities of the level indicated by its VaR measurements.

In addition to being used in FHN s daily market risk management process, the VaR and SVaR measures are also used by FHN in computing its regulatory market risk capital requirements in accordance with the Market Risk Capital rules. For additional information regarding FHN s capital adequacy refer to the Capital section of this MD&A.

FHN also performs stress tests on its trading securities portfolio to calculate the potential loss under various assumed market scenarios. A description of the stress tests is as follows:

Down 25 bps assumes an instantaneous downward move in interest rates of 25 basis points at all points on the interest rate yield curve.

Up 25 bps assumes an instantaneous upward move in interest rates of 25 basis points at all points on the interest rate yield curve.

Curve flattening assumes an instantaneous flattening of the interest rate yield curve through an increase in short-term rates and a decrease in long-term rates. The 2-year point on the Treasury yield curve is assumed to increase 15 basis points and the 10-year point on the Treasury yield curve is assumed to decrease 15 basis points. Shifts in other points on the yield curve are predicted based on their correlation to the 2-year and 10-year points.

Curve steepening assumes an instantaneous steepening of the interest rate yield curve through a decrease in short-term rates and an increase in long-term rates. The 2-year point on the Treasury yield curve is assumed to decrease 15 basis points and the 10-year point on the Treasury yield curve is assumed to increase 15 basis points. Shifts in other points on the yield curve are predicted based on their correlation to the 2-year and 10-year points.

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Credit spread widening assumes an instantaneous increase in credit spreads (the difference between yields on Treasury securities and non-Treasury securities) of 25 basis points.

Model Validation

Trading risk management personnel within Capital Markets have primary responsibility for model risk management with respect to the model used by FHN to compute its VaR measures and perform stress testing. Among other procedures, these personnel monitor model results and perform periodic backtesting as part of an ongoing process of validating the accuracy of the model. These model risk management activities are subject to annual review by FHN s Model Validation Group, an independent assurance group charged with oversight responsibility for FHN s model risk management.

CAPITAL MANAGEMENT AND ADEQUACY

There have been no significant changes to FHN s capital management practices as described under Capital Management and Adequacy beginning on page 45 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2012, which section is incorporated into this report by this reference.

OPERATIONAL RISK MANAGEMENT

There have been no significant changes to FHN s operational risk management practices as described under Operational Risk Management beginning on page 45 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2012, which section is incorporated into this report by this reference.

COMPLIANCE RISK MANAGEMENT

There have been no significant changes to FHN s compliance risk management practices as described under Compliance Risk Management beginning on page 46 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2012, which section is incorporated into this report by this reference.

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss due to adverse changes in a borrower s or counterparty s ability to meet its financial obligations under agreed upon terms. FHN is subject to credit risk in lending, trading, investing, liquidity/funding, and asset management activities. The nature and amount of credit risk depends on the types of transactions, the structure of those transactions and the parties involved. In general, credit risk is incidental to trading, liquidity/funding, and asset management activities, while it is central to the profit strategy in lending. As a result, the majority of credit risk is associated with lending activities.

FHN assesses and manages credit risk through a series of policies, processes, measurement systems, and controls. The Credit Risk Management Committee (CRMC) is responsible for overseeing the management of existing and emerging credit risks in the company within the broad risk tolerances established by the Board. The Credit Risk Management function, led by the Chief Credit Officer, provides strategic and tactical credit leadership by maintaining policies, overseeing credit approval, assessing new credit products, strategies and processes, and managing portfolio composition and performance.

The CRMC reviews on a periodic basis various reports issued by assurance functions which give it independent assessment of adequacy of loan servicing, grading and other key functions. Additionally, CRMC is presented and discusses various portfolios, lending activity and lending related projects. The Credit Risk Management function assesses the portfolio trends and the results of these processes and utilizes this information to inform management regarding the current state of credit quality and as a factor of the estimation process for determining the allowance for loan losses.

All of the above activities are subject to independent review by FHN s Credit Risk Assurance (CRA) Group. CRA reports to the Chief Audit Executive, who is appointed by and reports to the Audit Committee of the Board. CRA is charged with providing the Board and executive management with independent, objective, and timely assessments of FHN s portfolio quality, credit policies, and credit risk management processes.

Management strives to identify potential problem loans and nonperforming loans early enough to correct the deficiencies and prevent further credit deterioration. It is management s objective that both charge-offs and asset write-downs are recorded promptly based on management s assessments of the borrower s ability to repay and current collateral values.

INTEREST RATE RISK MANAGEMENT

Except as disclosed below, there have been no significant changes to FHN s interest rate risk management practices as described under Interest Rate Risk Management beginning on page 46 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2012, which section is incorporated into this report by this reference.

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Net Interest Income Simulation Analysis

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

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

The simulation models used to analyze net interest income create various at-risk scenarios looking at assumed increases and/or decreases in interest rates from instantaneous and staggered movements over a certain time period. In addition, the risk of changes in the yield curve is estimated by flattening and steepening the yield curve to simulate net interest income exposure. Management reviews these different scenarios to determine alternative strategies and executes based on that evaluation. The models are regularly updated to incorporate management action. Any scenarios that indicate a change in net interest income of 3 percent or more from a base net interest income are presented to the Board quarterly. At September 30, 2013, the interest rate environment remained at a low level. Under these market conditions, traditional scenarios estimating the impact of declining rates are not meaningful. Accordingly, declining rate shock scenarios (including minus 25 basis points and minus 200 basis points) that had been modeled in prior periods were not performed.

The remaining scenarios performed attempt to capture risk to net interest income from rising rates and changes in the shape of the yield curve. Based on the rate sensitivity position on September 30, 2013, net interest income exposure over the next 12 months to a rate shock of plus 200 basis points is estimated to be a favorable variance of approximately10 percent of base net interest income. A flattening yield curve scenario where long-term rates decrease and short-term rates are static, results in an unfavorable variance in net interest income of approximately negative 1.5 percent of base net interest income. These hypothetical scenarios are used to create one estimate of risk, and do not necessarily represent management s current view of future interest rates or market developments.

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

Derivatives

In the normal course of business, FHN utilizes various financial instruments (including derivative contracts and credit-related agreements) to manage the risk of loss arising from adverse changes in the fair value of certain financial instruments generally caused by changes in interest rates including capital markets securities inventory, certain term borrowings, and certain loans. Additionally, capital markets or the bank may enter into derivative contracts in order to meet customers needs. However, such derivative contracts are typically offset with a derivative contract entered into with an upstream counterparty in order to mitigate risk associated with changes in interest rates.

Prior to September 30, 2013, derivatives were used to protect against unfavorable changes in the fair value of MSR and other retained assets resulting from changes in interest rates.

Other than the impact related to the immediate change in market value of the balance sheet these simulation models and related hedging strategies exclude the dynamics related to how fee income and noninterest expense may be affected by actual changes in interest rates or expectations of changes. See Note 15 Derivatives for additional discussion of these instruments.

LIQUIDITY MANAGEMENT

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

Since 2008, FHN has significantly reduced its reliance on unsecured wholesale borrowings. Currently, the largest concentration of unsecured borrowings is federal funds purchased from small bank correspondent customers. These funds are considered to be substantially more stable than funds purchased in the national broker markets for federal funds due to the long, historical, and reciprocal nature of banking services provided by FHN to these correspondent banks. The remainder of FHN s wholesale short-term borrowings is repurchase agreement transactions accounted for as secured borrowings with the bank s business customers or capital markets broker dealer counterparties.

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

Core deposits are a significant source of funding and have historically been a stable source of liquidity for banks. Generally, core deposits represent funding from a financial institutions customer base which provide inexpensive, predictable pricing. The Federal Deposit Insurance Corporation insures these deposits to the extent authorized by law. Generally, these limits are $250 thousand per account owner for interest bearing and non-interest bearing accounts. Prior to 2013 a temporary program made unlimited the deposit insurance available to non-interest bearing accounts; that program expired on December 31, 2012. The ratio of total loans, excluding loans HFS and restricted real estate loans and secured borrowings, to core deposits decreased to 96 percent in September 30, 2013, from 102 percent in September 30, 2012, as an increase in core deposits outpaced growth in the loan portfolio.

Both FHN and FTBNA may access the debt markets in order to provide funding through the issuance of senior or subordinated unsecured debt subject to market conditions and compliance with applicable regulatory requirements. In 2010, FHN issued $500 million of non-callable fixed rate senior notes due in 2015. As of September 30, 2013, FHN had outstanding capital securities representing guaranteed preferred beneficial interests in $206 million of FHN s junior subordinated debentures through a Delaware business trust, wholly owned by FHN, which was eligible for inclusion in Tier 1 Capital. Beginning in 2015, Tier 1 Capital treatment for these securities will begin phasing out. FHN also maintains $.4 billion of borrowings which are secured by retail residential real estate loans in consolidated and nonconsolidated securitization trusts.

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

Parent company liquidity is primarily provided by cash flows stemming from dividends and interest payments collected from subsidiaries. These sources of cash represent the primary sources of funds to pay cash dividends to shareholders and interest to debt holders. The amount paid to the parent company through FTBNA common dividends is managed as part of FHN s overall cash management process, subject to applicable regulatory restrictions. Certain regulatory restrictions exist regarding the ability of FTBNA to transfer funds to FHN in the form of cash, common dividends, loans, or advances. At any given time, the pertinent portions of those regulatory restrictions allow FTBNA to declare preferred or common dividends without prior regulatory approval in an amount equal to FTBNA s retained net income for the two most recent completed years plus the current year to date. For any period, FTBNA s retained net income generally is equal to FTBNA s regulatory net income reduced by the preferred and common dividends declared by FTBNA. Excess dividends in either of the two most recent completed years may be offset with available retained net income in the two years immediately preceding it. Applying the applicable rules, FTBNA s total amount available for dividends was negative $201.5 million as of September 30, 2013, compared to negative $297.3 million at September 30, 2012. Consequently, FTBNA cannot pay common dividends to its sole common stockholder, FHN, or to its preferred shareholders without prior regulatory approval. FTBNA applied for and received approval from the OCC to declare and pay a common dividend to FHN in the amount of $100 million in April 2012 and $180 million in January 2013. FTBNA has applied for and received approval from the OCC to declare and pay

preferred dividends each quarter in 2013 and 2012.

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Payment of a dividend to shareholders of FHN is dependent on several factors which are considered by the Board. These factors include FHN s current and prospective capital, liquidity, and other needs, applicable regulatory restrictions, and also availability of funds to FHN through a dividend from FTBNA. Additionally, the Federal Reserve and the OCC have issued policy statements generally requiring insured banks and bank holding companies to pay cash dividends only out of current operating earnings. Consequently, the decision of whether FHN will pay future dividends and the amount of dividends will be affected by current operating results. FHN paid a cash dividend of $.05 per common share on October 1, 2013, compared to $.01 per common share on October 1, 2012. Additionally, in October the Board approved a $.05 per common share cash dividend payable on January 1, 2014, to shareholders of record on December 13, 2013. FHN paid a cash dividend of $1,550.00 per preferred share on October 10, 2013, and in October the Board approved a $1,550.00 per preferred share cash dividend payable on January 10, 2014, to shareholders of record on December 26, 2013.

CREDIT RATINGS

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

The following table provides FHN s most recent credit ratings:

Table 18 Credit Ratings

	Standard & Poor s (a)	Moody s (b)	Fitch (c)
First Horizon National Corporation			
Overall credit rating: long-term/outlook	BBB-/Negative	Baa3/Stable	BBB-/F3/Stable
Long-term senior debt	BBB-	Baa3	BBB-
Subordinated debt	BB+	Baa1	BB+
Trust preferred capital securities (d)	BB	Ba2	B+
Preferred stock	BB	Ba3	B
First Tennessee Bank National Association			
Overall credit rating: long-term/outlook	BBB/A-2/Negative	Baa2/P-2/Stable	BBB-/F3/Stable
Long-term/short-term deposits	BBB/A-2	Baa2/P-2	BBB/F3
Long-term/short-term senior debt	BBB/A-2	Baa2/P-2	BBB-/F3
Subordinated debt	BBB-	Baa3	BB+
Preferred stock	BB+	Ba2	B
FT Real Estate Securities Company, Inc.			
Preferred stock	BB+	Ba1	

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

(a) Last change in ratings was on April 23, 2009; outlook changed to Negative on June 28, 2012; ratings/outlook affirmed December 11, 2012.
(b) Last change in ratings was on October 25, 2013.
(c) Last change in ratings was on December 13, 2012; ratings/outlook affirmed October 21, 2013.
(d) Guaranteed preferred beneficial interest in First Horizon s junior subordinated debentures issued through a wholly-owned unconsolidated business trust.

CASH FLOWS

The Consolidated Condensed Statements of Cash Flows provide information on cash flows from operating, investing, and financing activities for the nine months ended September 30, 2013 and 2012. The level of cash and cash equivalents decreased $81.4 million during 2013 compared to an increase of $57.4 million in 2012. In 2013, cash used by financing activities more than offset cash provided by investing and operating

activities, and in 2012 cash provided by financing and operating activities more than offset cash used by investing activities.

Net cash used by financing activities was $1.8 billion in 2013, while financing activities provided $284.8 million of cash during 2012. In 2013, cash was negatively affected by declining deposits and a decrease in short-term borrowings due to the payoff of FHLB borrowings, as well as $411.0 million in maturities and payments of term borrowings and $91.4 million of common shares repurchased. This cash outflow was somewhat mitigated by the cash inflow from the preferred stock issuance that provided $95.6 million in net proceeds. In 2012, significant inflows of FHLB borrowings as a result of deposit fluctuations and an increase in loans to mortgage companies more than offset cash outflows related to payments and maturities of term borrowings and cash paid to repurchase common stock.

Net cash provided by investing activities was $1.6 billion in 2013 compared to net cash used of $339.8 million in 2012. In 2013, declining loan balances, a decline in interest-bearing cash, and $50.9 million in cash receipts related to the MNB acquisition favorably affected cash provided by investing activities. These cash inflows were somewhat offset by activity related to the AFS securities portfolio which resulted in a $130.9 million net decrease in cash as securities purchased outpaced maturities and sales. Cash used by investing activities in 2012 was the result of a $291.0 million increase in loan balances coupled with a net increase in the AFS securities portfolio. Net cash provided by operating activities was $114.2 million and $112.4 million in 2013 and 2012, respectively. Operating cash flows in 2013 were positively affected by cash-related net income items which more than offset an $84.9 million net decrease in cash related to capital market activities and $72.2 million of changes in operating assets and liabilities that negatively affected cash flows. In 2012, operating cash flows were favorably affected by cash-related net income items, partially offset by a $270.1 million net decrease in cash related to capital markets activities.

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

Repurchase and Related Obligations from Loans Originated for Sale

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

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

Since the end of 2008, FHN has experienced significantly elevated levels of claims to either repurchase loans from the purchaser or remit payment to the purchaser to make them whole for economic losses incurred primarily because of loan delinquencies. Such claims are pursued because purchasers allege that certain loans that were sold violated representations and warranties made by FHN at closing. While FHN has received claims from private investors from whole loans sales, a significant majority of claims relate to non-recourse whole loan sales to GSEs. FHN also has the potential for financial exposure from loans transferred through FH proprietary securitizations. See Note 10 Contingencies and Other Disclosures for other actions taken by investors of FH proprietary securitizations and also for a discussion outlining differences between representations and warranties made by FHN for GSE loan sales versus FH proprietary securitizations.

Origination Data

From 2005 through 2008, FHN originated and sold $69.5 billion of agency mortgage loans without recourse which includes $57.6 billion of loans sold to GSEs and $11.9 billion of loans guaranteed by Ginnie Mae. GSE loans originated in 2005 through 2008 account for 95 percent of all repurchase requests/make-whole claims received from the third quarter 2008 divestiture of certain mortgage banking operations through third quarter 2013.

In addition, for many years ending in 2007, FHN securitized mortgage loans without recourse in First Horizon branded proprietary transactions. From 2005 through 2007, FHN securitized $26.7 billion of mortgage loans under the First Horizon brand. As of September 30, 2013, FHN still services substantially all of the remaining loans transferred through FH proprietary securitizations.

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

Table 19 Composition of Off-Balance Sheet First Horizon Proprietary Mortgage Securitizations

(Dollars in thousands)	Original UPB for active FH securitizations (a)	UPB as of September 30, 2013
Loan type:		
Jumbo	$ 9,410,499	$ 2,346,390
Alt-A	17,270,431	5,039,680
Total FH proprietary securitizations	$ 26,680,930	$ 7,386,070

Does not include amounts related to consolidated securitization trusts.

(a) Original principal balances obtained from trustee statements.

The remaining jumbo and Alt-A mortgage loans originated and sold by FHN had weighted average FICO scores at origination of approximately 730 and 714, respectively, and both had weighted average combined loan-to-value (CLTV) ratios of approximately 79 percent at origination. Alt-A loans consisted of a variety of non-conforming products that typically have greater credit risk due to various issues such as higher debt to income (DTI) ratios, reduced documentation, or other factors. As of September 30, 2013, 10.01 percent of the jumbo mortgage loans were 90 days or more delinquent and 15.71 percent of the Alt-A loans were 90 days or more delinquent.

At September 30, 2013, the repurchase request pipeline contained no repurchase requests related to FH proprietary first lien securitized mortgage loans based on claims related to breaches of representations and warranties. At September 30, 2013, FHN had not accrued a liability for exposure for repurchase of loans arising from claims that FHN breached its representations and warranties made in FH proprietary securitizations at closing.

Active Pipeline

The amount of repurchase requests and make-whole claims is accumulated into the active pipeline . The active pipeline includes the amount of claims for repurchase, make-whole payments, and information requests from purchasers of loans originated and sold through FHN s legacy mortgage banking business. Private mortgage insurance (MI) was required for certain of the loans sold to GSEs or that were securitized. MI generally was provided on first lien loans that were sold to GSEs or securitized that had a LTV ratio at origination of greater than 80 percent. Although unresolved MI cancellation notices are not formal repurchase requests, FHN includes those loans in the active pipeline.

For purposes of quantifying the amount of loans underlying the repurchase/make-whole claim or MI cancellation notice, FHN uses the current UPB in all cases if the amount is available. If current UPB is unavailable, the original loan amount is substituted for the current UPB. When neither is available, the claim amount is used as an estimate of current UPB. On September 30, 2013, the active pipeline was $310.7 million, down from $446.3 million from September 30, 2012, with a substantial majority of unresolved repurchase and make-whole claims relating to loans sold to GSEs.

Generally, the amount of a loan subject to a repurchase/make-whole claim or with open MI issues remains in the active pipeline throughout the appeals process with a claimant until parties agree on the ultimate outcome. FHN reviews each claim and MI cancellation notice individually to determine the appropriate response by FHN (e.g. appeal, provide additional information, repurchase loan or remit make-whole payment, or reflect cancellation of MI). The Federal Housing Finance Agency (FHFA), the conservator of the GSEs, announced directives to harmonize the selling and servicing agreements between the GSEs and their approved sellers and/or servicers. Starting January 1, 2013, all appeals of a GSE s repurchase or make whole request must be submitted within 60 days of the appellant s receipt of the request. FHFA involvement could lead to additional changes in practices for requesting and resolving repurchase claims as the GSEs continue to attempt to recover losses.

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Table 20 Rollforward of the Active Pipeline

	1st Liens		2nd Liens		HELOC		TOTAL	
(Dollars in thousands)	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Legacy mortgage banking repurchase/other requests:								
Beginning balance July 1, 2013	**1,091**	**$ 210,915**	**7**	**$ 561**		**$**	**1,098**	**$ 211,476**
Additions	**1,369**	**258,425**	**28**	**2,642**	**1**	**28**	**1,398**	**261,095**
Decreases	**(874)**	**(176,410)**	**(8)**	**(611)**	**(1)**	**(28)**	**(883)**	**(177,049)**
Adjustments (a)	**(40)**	**(8,036)**					**(40)**	**(8,036)**
Ending balance September 30, 2013	**1,546**	**284,894**	**27**	**2,592**			**1,573**	**287,486**
Legacy mortgage banking MI cancellation notices:								
Beginning balance July 1, 2013	**114**	**23,180**					**114**	**23,180**
Additions	**77**	**15,832**					**77**	**15,832**
Decreases	**(71)**	**(14,913)**					**(71)**	**(14,913)**
Adjustments (a)	**(7)**	**(918)**					**(7)**	**(918)**
Ending balance September 30, 2013	**113**	**23,181**					**113**	**23,181**
Total ending active pipeline September 30, 2013 (b)	**1,659**	**$ 308,075**	**27**	**$ 2,592**		**$**	**1,686**	**$ 310,667**

	1st Liens		**2nd Liens**		**HELOC**		**TOTAL**	
(Dollars in thousands)	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**
Legacy mortgage banking repurchase/other requests:								
Beginning balance January 1, 2013	**1,486**	**$ 300,751**	**5**	**$ 215**		**$**	**1,491**	**$ 300,966**
Additions	**3,364**	**672,923**	**32**	**3,119**	**1**	**28**	**3,397**	**676,070**
Decreases	**(3,221)**	**(670,738)**	**(10)**	**(742)**	**(1)**	**(28)**	**(3,232)**	**(671,508)**
Adjustments (a)	**(83)**	**(18,042)**					**(83)**	**(18,042)**
Ending balance September 30, 2013	**1,546**	**284,894**	**27**	**2,592**			**1,573**	**287,486**
Legacy mortgage banking MI cancellation notices:								
Beginning balance January 1, 2013	**160**	**32,849**					**160**	**32,849**
Additions	**252**	**51,130**					**252**	**51,130**
Decreases	**(315)**	**(66,527)**					**(315)**	**(66,527)**
Adjustments (a)	**16**	**5,729**					**16**	**5,729**
Ending balance September 30, 2013	**113**	**23,181**					**113**	**23,181**
Total ending active pipeline September 30, 2013 (b)	**1,659**	**$ 308,075**	**27**	**$ 2,592**		**$**	**1,686**	**$ 310,667**

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

Active pipeline excludes repurchase requests for HELOC and home equity installment loans originated and sold through channels other than legacy mortgage banking.

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Table 20 Rollforward of the Active Pipeline (Continued)

	1st Liens		2nd Liens		HELOC		TOTAL	
(Dollars in thousands)	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Legacy mortgage banking repurchase/other requests:								
Beginning balance July 1, 2012	1,871	$ 383,829	5	$ 477	1	$ 207	1,877	$ 384,513
Additions	1,305	266,225	5	396	1	301	1,311	266,922
Decreases	(1,145)	(241,558)	(6)	(378)	(2)	(508)	(1,153)	(242,444)
Adjustments (a)	(12)	(1,829)	(1)	(75)			(13)	(1,904)
Ending balance September 30, 2012	2,019	406,667	3	420			2,022	407,087
Legacy mortgage banking MI cancellation notices:								
Beginning balance July 1, 2012	225	46,047					225	46,047
Additions	102	21,947					102	21,947
Decreases	(137)	(29,814)					(137)	(29,814)
Adjustments (a)	2	1,080					2	1,080
Ending balance September 30, 2012	192	39,260					192	39,260
Total ending active pipeline September 30, 2012 (b)	2,211	$ 445,927	3	$ 420		$	2,214	$ 446,347

	1st Liens		**2nd Liens**		**HELOC**		**TOTAL**	
(Dollars in thousands)	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**
Legacy mortgage banking repurchase/other requests:								
Beginning balance January 1, 2012	1,659	$ 307,705	4	$ 211	2	$ 454	1,665	$ 308,370
Additions	3,564	752,337	11	1,055	2	508	3,577	753,900
Decreases	(3,204)	(655,136)	(11)	(771)	(4)	(962)	(3,219)	(656,869)
Adjustments (a)		1,761	(1)	(75)			(1)	1,686
Ending balance September 30, 2012	2,019	406,667	3	420			2,022	407,087
Legacy mortgage banking MI cancellation notices:								
Beginning balance January 1, 2012	346	75,148					346	75,148
Additions	331	70,165					331	70,165
Decreases	(525)	(113,163)					(525)	(113,163)
Adjustments (a)	40	7,110					40	7,110
Ending balance September 30, 2012	192	39,260					192	39,260
Total ending active pipeline September 30, 2012 (b)	2,211	$ 445,927	3	$ 420		$	2,214	$ 446,347

(a) Generally, adjustments reflect reclassifications between repurchase requests and MI cancellation notices and/or updates to UPB.
(b) Active pipeline excludes repurchase requests for HELOC and home equity installment loans originated and sold through channels other than legacy mortgage banking.

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The following graph depicts inflows into the active pipeline by claimant type for each quarter during 2013 and 2012:

As of September 30, 2013, agencies accounted for a majority of the repurchase/make-whole requests in the active pipeline and 91 percent of the total active pipeline, inclusive of MI cancellation notices and all other claims. Amounts included in All Other Claims typically include requests for additional information from both GSE and non-GSE purchasers, in addition to non-GSE repurchase requests. The increase beginning in fourth quarter 2012 primarily relates to information and documentation type requests from Fannie Mae. For loans in the active pipeline for which FHN has received notification of MI cancellation, a majority relate to loans sold to GSEs versus requests for repurchase. Consistent with originations, a majority of claims have been from Fannie Mae and Freddie Mac and 2007 represents the vintage with the highest volume of claims. Total new repurchase and make-whole claims from agencies decreased $18.5 million to $156.2 million in third quarter 2013 compared to second quarter 2013 and declined $105.3 million from third quarter 2012. Total MI cancellation notices received declined $6.1 million from a year ago to $15.8 million in 2013.

The most common reasons for GSE repurchase demands are claimed misrepresentations related to missing documents in the loan file, issues related to employment and income (such as misrepresented stated-income or falsified employment documents and/or verifications), and undisclosed borrower debt.

The following tables provide information regarding resolutions (outflows) of the active pipeline during the three and nine months ended September 30, 2013 and 2012:

Table 22 Active Pipeline Resolutions and Other Outflows

	Three Months Ended September 30, 2013		Three Months Ended September 30, 2012	
(Dollars in thousands)	**Number**	**UPB**	Number	UPB
Repurchase, make-whole, settlement resolutions	**300**	**$ 60,879**	559	$ 119,476
Rescissions or denials	**427**	**86,270**	525	113,318
Other, MI, information requests	**227**	**44,813**	206	39,465
Total resolutions	**954**	**$ 191,962**	1,290	$ 272,259

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(Dollars in thousands)	Nine Months Ended September 30, 2013 Number	UPB	Nine Months Ended September 30, 2012 Number	UPB
Repurchase, make-whole, settlement resolutions	**1,246**	**$ 259,739**	1,438	$ 310,413
Rescissions or denials	**1,530**	**318,007**	1,401	303,837
Other, MI, information requests	**771**	**160,289**	905	155,783
Total resolutions	**3,547**	**$ 738,035**	3,744	$ 770,033

Total resolutions disclosed in Table 22 Active Pipeline Resolutions and Other Outflows include both favorable and unfavorable resolutions and are reflected as decreases in the Rollforward of the Active Pipeline in Table 20. The UPB of actual repurchases, make-whole, settlement resolutions, which was $60.9 million and $119.5 million during third quarter 2013 and 2012, respectively, represents the UPB of loans for which FHN has incurred a loss on the actual repurchase of a loan, or where FHN has reimbursed a claimant for economic losses incurred. When estimating the accrued liability using loss factors based on actual historical experience, FHN has applied cumulative average loss severities ranging between 50 and 60 percent of the UPB of the repurchased loan or make-whole claim. When loans are repurchased or make-whole payments have been made, the associated loss content on the repurchase, make-whole, or settlement resolution is reflected as a net realized loss in Table 23 Reserves for Repurchase and Foreclosure Losses.

Rescissions or denials, which were $86.3 million and $113.3 million in third quarters 2013 and 2012, respectively, represent the amount of repurchase requests and make-whole claims that FHN was able to resolve without incurring loss. Cumulative average rescission rates have ranged between 45 and 55 percent since the 2008 divestiture. Of the loans resolved in the third quarter of 2013 relating to actual repurchase or make-whole claims, FHN was successful in favorably resolving approximately 59 percent of the claims compared to 50 percent in 2012. Resolutions related to other, MI, information requests, which were $44.8 million and $39.5 million during third quarter 2013 and 2012, respectively, include providing information to the claimant, issues related to MI coverage, and other items. Resolutions in this category include both favorable and unfavorable outcomes with MI companies, including situations where MI was ultimately cancelled. FHN does not realize loss (a decrease of the repurchase and foreclosure liability) for loans with MI issues unless a repurchase/make-whole claim is submitted and such request is unfavorably resolved.

Repurchase Accrual Methodology

As described in more detail below, FHN historically estimated loss content within the active pipeline as well as loss content associated with loans in which MI coverage was ultimately lost. This approach is referred to as the historical repurchase accrual approach and applies to periods prior to second quarter 2012. Prior to second quarter 2012, FHN s ability to quantify this estimate was substantially limited because, among other things, FHN no longer services a large portion of the loans sold to the GSEs and therefore has limited access to loan data for that portion. Because of this new information, after first quarter 2012 FHN has had better visibility allowing it to better estimate the probable loss which will result from the repurchase process going forward in respect of all conforming conventional mortgage loans which FHN sold on a whole-loan basis to the two GSEs. The revised and historical repurchase accrual approaches are discussed below.

Revised Repurchase Accrual Approach

Beginning in second quarter 2012, information was made available by Fannie Mae to FHN which provided significant insight into their file selection and review process for loans previously sold by FHN to Fannie Mae with repurchase risk. As a result, FHN revised its loss estimate associated with repurchase obligations for loans sold to Fannie Mae and Freddie Mac. Fannie Mae has updated that information quarterly, and FHN has revised its loss estimates correspondingly. Loss estimates for Freddie Mac were and continue to be based on information on FHN s Fannie Mae exposure and was used to extrapolate FHN s estimated exposure to Freddie Mac. Therefore, as FHN updated its Fannie Mae estimates FHN has extrapolated its remaining Freddie Mac exposure using similar assumptions of loss content.

The process for estimating the liability for repurchase obligations for the two GSEs as of September 30, 2013, was the result of a three-step approach. First, FHN analyzed loss content associated with outstanding repurchase/make-whole claims currently in the active pipeline. The pipeline is segmented and historical cumulative average loss severities and repurchase rates were applied to estimate losses associated with known requests.

Secondly, FHN estimated probable losses associated with projected requests from Fannie Mae. The ability to project repurchase requests from Fannie Mae resulted from information provided by Fannie Mae that segments the population of FHN loans into three categories: 1) loans that are currently selected for review, 2) liquidated loans that will likely be selected for review in the future, and 3) seriously delinquent loans that will likely be selected for review in the future. Fannie Mae also provided FHN with their average historical repurchase request rates for loans after they have been selected for review. FHN utilized this information to estimate the average historical repurchase rate on the three segments

described above that could result in future repurchase requests from Fannie Mae. FHN s historical average cumulative loss severities and repurchase rates were then applied to the projected repurchase requests to estimate the associated probable losses. Prior to third quarter 2013, FHN s repurchase loss estimate for loans sold to the GSEs focused on loans sold from 2005 through 2008. In the fourth quarter of 2013, as mentioned above, FHN entered into a DRA with

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Fannie Mae resolving certain legacy representation and warranty repurchase obligations associated with loans originated from 2000 to 2008 excluding certain loans FHN no longer services. Under the DRA FHN remains responsible for repurchase obligations related to certain excluded defects (such as title defects and violations of Fannie Mae s Charter Act) and FHN continues to have obligations related to mortgage insurance rescissions, cancellations and denials. With respect to covered loans where there has been a prior bulk sale of servicing, FHN is not responsible for mortgage insurance cancellations and denials to the extent attributable to the acts of the current servicer. Refer to Note 10 Contingencies and Other Disclosures, for additional details.

Lastly, the loss estimate as of September 30, 2013 also includes probable losses for loan populations not included in the DRA including loans sold to Freddie Mac from 2000 through 2008, obligations related to future mortgage insurance cancellations, loans previously included in bulk servicing sales, and other loan sales. The characteristics of the loans sold to Fannie Mae during that timeframe were generally consistent with those sold to Freddie Mac. Additionally, FHN s trends in repurchase rates and loss severities for Freddie Mac loans have been generally consistent with those experienced for Fannie Mae loans.

In third quarter 2013, FHN recorded $200.0 million of repurchase and foreclosure provision expense as additional information, obtained leading up to the DRA as mentioned above, encompassed a broader population of loans. The provision included the impact of the DRA, estimates for future loss not included in the DRA, and estimates for future loss related to Freddie Mac. Since second quarter 2012, Fannie Mae has updated the information provided to FHN quarterly. Based on the most recent information received and the FHN methodology described above, FHN determined that provision expense of $200 million should be recorded in the third quarter of 2013. Refer to Critical Accounting Policies below and to Note 10 Contingencies and Other Disclosures for additional details.

Historical Repurchase Accrual Approach

In estimation of the accrued liability for loan repurchases and make-whole obligations in periods prior to second quarter 2012, FHN estimated probable incurred losses in the population of all loans sold based on trends in claims requests and actual loss severities observed by management. The liability included accruals for probable losses beyond what was observable in the ending pipeline of repurchase/make-whole requests and active MI cancellations at any given balance sheet date. The estimation process began with internally developed proprietary models that were used to assist in developing a baseline in evaluating inherent repurchase-related loss content. The baseline for the repurchase reserve used historical loss factors that were applied to the loan pools originated in 2001 through 2008 and sold in years 2001 through 2009. Loss factors, tracked by year of loss, were calculated using actual losses incurred on repurchases or make-whole arrangements. The historical loss factors experienced were accumulated for each sale vintage and were applied to more recent sale vintages to estimate probable incurred losses not yet realized.

In order to incorporate more current events, FHN then incorporated management judgment within its estimation process for establishing appropriate reserve levels. For repurchase requests related to breach of representations and warranties, the active pipeline was segregated into various components (e.g., requestor, repurchase, or make-whole) and current rescission (successful resolutions) and loss severity rates were applied to calculate estimated losses attributable to the current pipeline. When assessing the adequacy of the repurchase reserve, management also considered trends in the amounts and composition of new inflows into the pipeline. FHN then compared the estimated losses inherent within the pipeline with current reserve levels.

For purposes of estimating loss content, FHN also considered reviewed MI cancellation notices where coverage had been cancelled. When assessing loss content related to loans where MI had been cancelled, FHN first reviewed the amount of unresolved MI cancellations that were in the active pipeline and adjusted for any known facts or trends observed by management. Similar to the methodology for actual repurchase/make-whole requests, FHN applied loss factors (including probability and loss severity ratios) that were derived from actual incurred losses in past vintages to the amount of unresolved MI pipeline for loans that were sold to GSEs. For GSE MI cancellation notices, the methodology for determining the accrued liability contemplated a higher probability of loss compared with that applied to GSE repurchase/make-whole requests as FHN had been less successful in favorably resolving mortgage insurance cancellation notifications with MI companies. Loss severity rates applied to GSE MI cancellation notifications were consistent with those applied to actual GSE claims. For GSE MI cancellation notifications where coverage had been ultimately cancelled and were no longer included in the active pipeline, FHN applied a 100 percent repurchase rate in anticipation that such loans ultimately would result in repurchase/make-whole requests from the GSEs since MI coverage for certain loans is a GSE requirement. Under the revised repurchase accrual approach, loss estimation for loans with lost MI coverage is no longer separately assessed nor added to inherent losses within the active pipeline as this population of loans is embedded in the data received from Fannie Mae. MI cancellation trends continue to be tracked and reviewed and are considered in the overall adequacy of the repurchase liability.

Repurchase and Foreclosure Liability

FHN compares the estimated probable incurred losses determined under the applicable loss estimation approaches described above for the respective periods with current reserve levels. Changes in the estimated required liability levels are recorded as necessary through the repurchase and foreclosure provision. There are certain second liens and HELOCs subject to repurchase claims that are not included in the active pipeline as these loans were originated and sold through different channels. Liability estimation for potential repurchase obligations related to these second liens and HELOCs was determined outside of the methodology for loans originated and sold through the national legacy mortgage origination platform and were not material as of September 30, 2013 and 2012.

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The following table provides a rollforward of the legacy mortgage repurchase liability during the three and nine months ended September 30, 2013 and 2012:

Table 23 Reserves for Repurchase and Foreclosure Losses

(Dollars in thousands)	Three Months Ended September 30 **2013**	2012	Nine Months Ended September 30 **2013**	2012
Legacy Mortgage				
Beginning balance	**$ 122,724**	$ 360,460	**$ 232,390**	$ 165,331
Provision for repurchase and foreclosure losses	**200,000**		**200,000**	299,256
Net realized losses	**(28,995)**	(68,544)	**(138,661)**	(172,671)
Balance on September 30	**$ 293,729**	$ 291,916	**$ 293,729**	$ 291,916

The liability for legacy mortgage repurchase and foreclosure losses was $293.7 million and $291.9 million as of September 30, 2013 and 2012, respectively. In third quarter 2013, FHN recognized expense of $200.0 million to the repurchase and foreclosure provision associated with new information received, as mentioned above. In third quarter 2013 compared to 2012, success rates on putbacks on repurchases in the pipeline improved while the loss severity rates have remained generally consistent in both periods.

Net realized losses for the repurchase of first lien loans or make-whole payments were $29.0 million during third quarter 2013 compared with $68.5 million during third quarter 2012. Table 23 reflects net losses on $60.9 million of repurchase, make-whole, and settlement resolutions which are reflected in Table 22 Active Pipeline Resolutions and Other Outflows. In third quarter 2013, the net realized losses incurred were 48 percent of the UPB of repurchase/make-whole requests resolved. In third quarter 2012, losses were $119.5 million representing a 57 percent actual loss severity.

Generally, repurchased loans are included in loans HFS and recognized at fair value at the time of repurchase, which contemplates the loan s performance status and estimated liquidation value. The UPB of loans that were repurchased during third quarter 2013 was $17.8 million compared with $43.6 million during 2012. FHN has elected to continue recognition of these loans at fair value in periods subsequent to reacquisition. After the loan repurchase is completed, classification (performing versus nonperforming) of the repurchased loans is determined based on an additional assessment of the credit characteristics of the loan in accordance with FHN s internal credit policies and guidelines consistent with other loans FHN retains on the balance sheet, except to the extent that a delinquent loan is repurchased, in which case the loan is immediately classified as nonperforming.

Government-Backed Mortgage Lending Programs

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

Since second quarter 2012 FHN has been cooperating with the U.S. Department of Justice (DOJ) and the Office of the Inspector General for the Department of Housing and Urban Development (HUD) in a civil investigation regarding compliance with requirements relating to certain FHA-insured loans. During second quarter 2013 DOJ and HUD provided FHN with preliminary findings of the investigation, which has focused on a small sample of loans and remains incomplete. FHN has made its own analysis of the sample. No demand or claim has been made of FHN, but this matter has not been resolved. The investigation could lead to a demand under the federal False Claims Act and the federal Financial Institutions Reform, Recovery, and Enforcement Act of 1989, which allow treble and other special damages substantially in excess of actual losses. Currently FHN is not able to predict the eventual outcome of this matter and has established no liability for it. Additional information concerning this matter is provided in this Quarterly Report in Note 10 Contingencies and Other Disclosures.

Other FHN Mortgage Exposures and Trends

Although FHN has received no repurchase requests from the trustee of FH proprietary securitizations, as described in Note 10 Contingencies and Other Disclosures, FHN is defending several lawsuits by investors in FH proprietary securitizations. These litigation matters are in early stages and have not been resolved; at September 30, 2013, a small liability has been established for one of these lawsuits.

In addition, also as described in Note 10, many non-GSE purchasers of whole loans from FHN included those loans in their own securitizations. In such other whole loan sales FHN made representations and warranties concerning the loans sold and provided indemnity covenants to the purchaser/securitizer. Typically the purchaser/securitizer assigned key contractual rights against FHN to the securitization trustee. Currently the following categories of actions are pending which involve FHN and non-GSE whole-loan sales: (i) FHN has received indemnification requests from purchasers of loans or their assignees in cases where FHN is not a defendant; (ii) FHN has received subpoenas seeking loan reviews in cases where FHN is not a defendant; (iii) FHN has received repurchase demands from purchasers or their assignees; and (iv) FHN is a defendant in two legal actions involving FHN-originated loans.

MARKET UNCERTAINTIES AND PROSPECTIVE TRENDS

Uncertainties remain surrounding the national economy, the housing market, the regulatory and political environment, U.S. government spending generally and its debt ceiling, and the European financial situation and will continue to present challenges for FHN for the remainder of 2013 and into 2014. Although during most of 2012 and 2013 to date, the national economy exhibited signs of improvement, improvement has been uneven and economic conditions, which remain stressed, could regress. While asset quality at FHN has improved due to active risk management and borrowers adjusting to the prolonged difficult operating environment, external factors may result in increased credit costs and loan loss provisioning and could also suppress loan demand from borrowers and further increase competition among financial institutions resulting in continued pressure on net interest income. Additionally, despite the significant reduction of legacy national lending operations, the ongoing economic stress and uncertainty in the housing market could affect borrower defaults resulting in elevated repurchase requests from GSEs and third party whole loan purchasers relative to current projections or could impact losses recognized by investors in FH proprietary securitizations which could result in repurchase losses or litigation. Economic and political uncertainty could also lead to changes in repurchase practices of GSEs which could result in additional repurchase losses for loans sold subject to repurchase requests from GSEs. See the Repurchase and Related Obligations from Loans Originated for Sale section within MD&A of this report and Critical Accounting Policies beginning on page 64 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2012, and Note 10 Contingencies and Other Disclosures within this report for additional discussion regarding FHN s repurchase obligations.

Although FHN has little direct exposure to Euro-denominated assets or to European debt, major adverse events in Europe could have an indirect impact on FHN. Because the U.S. financial system in many ways is linked to the European financial system, a major adverse event could negatively impact liquidity in the U.S. causing funding costs to rise, or could potentially limit availability of funding through conventional markets in a worst-case scenario. FHN also could be adversely affected by European-triggered events impacting hedging or other counterparties, customers with European businesses and/or assets denominated in the Euro, the U.S. economy, interest rates, inflation/deflation rates, and the regulatory environment should there be a political response to major financial disruptions, all of which could have a financial impact on FHN.

Regulatory Matters

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Reform Act) made a substantial number of significant changes to how financial services companies are regulated. Most of the sweeping changes in the Reform Act are not complete or specific. Overall, the Corporation expects that the Reform Act and its regulations are likely to increase the Corporation s regulatory compliance and certain other costs significantly, and they are likely to constrain operations and revenues in some respects, perhaps significantly in some areas.

In early July 2013, the OCC and Federal Reserve adopted a final rule that revises their risk-based and leverage capital requirements for banking organizations. The final rule consolidates three separate notices of proposed rulemakings (NPRs) previously issued in June 2012, with selected changes. Modifications under the final rule include a revised definition of regulatory capital, a new common equity tier 1 minimum capital requirement, a higher minimum tier 1 capital requirement, and changes to the risk-weights for certain assets, in addition to other requirements. Compliance with the final rule is required beginning January 1, 2015. Had the final rule been effective as of September 30, 2013, FHN estimates that it would have remained a well-capitalized institution. Under the final rule, based on a preliminary assessment, the tier 1 common regulatory ratio at September 30, 2013, would have decreased by approximately 50 basis points had the amended rule been in effect.

In July 2013, a federal district court ruled that the Federal Reserve exceeded its authority under the so-called Durbin amendment of the Reform Act in setting debit card interchange rates in 2011. The Federal Reserve s action had reduced prevailing market rates substantially by capping them generally at 21 cents per transaction. The court held that rate cap to be higher than the Reform Act allowed, among other rulings against the Federal Reserve s 2011 actions. Although the court s rulings are not complete, it is possible that final, complete rulings by the court could compel the Federal Reserve to further reduce the rate cap substantially and take other detrimental actions. The court s rulings were appealed and it is not known how this case will finally be resolved. During the first three quarters of 2013, FHN s revenues from debit card interchange fees averaged just over $5 million per quarter. A substantial further reduction in the rate cap or other significant adverse action likely would result in lower revenues and business practice adjustments.

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Governmental Litigation Environment

Like many other banks involved in mortgage lending prior to 2009, FHN is defending various legal actions, and may be facing the possibility of still others, primarily connected with the origination and the sale, securitization, or government insurance of residential mortgage loans. In many of those actions a governmental agency or government-insured agent is or may become the plaintiff. Refer to Note 10 Contingencies and Other Disclosures for additional information about those pending and prospective matters directly involving FHN. Recently there have been several significant settlements, or reports of potential settlements, with governmental entities that have been publicly reported or publicly announced by several large financial institutions.

As discussed in Note 10, most of the governmental actions, investigations, and claims involving FHN are in relatively early stages. However, the trend of large settlements with governmental entities may adversely affect FHN s negotiating position in these matters.

Moreover, recently there have been several unfavorable court decisions involving claims by governmental entities related to the sale or securitization of residential mortgage loans. These decisions have, among other things, limited the discovery available to defendants, and, by sanctioning the government s novel theory as to the application of a federal law enacted in 1989, FIRREA, extended the time period during which the government can bring claims related to mortgages, as well as available remedies.

If these decisions are not appealed, or if they are upheld on appeal, FHN s litigation position in mortgage-related matters may be adversely affected.

Foreclosure Practices

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

FHN s national mortgage and servicing platforms were sold in August 2008 and the related servicing activities, including foreclosure and loss mitigation practices of the still-owned portion of FHN s mortgage servicing portfolio, were outsourced through a three-year subservicing arrangement (the 2008 subservicing agreement) with the platform buyer (the 2008 subservicer). The 2008 subservicing agreement expired in 2011 when FHN entered into a replacement agreement with a new subservicer (the 2011 subservicer). In third quarter 2013 FHN agreed to sell a substantial majority of its remaining servicing obligations and servicing assets (including advances) to the 2011 subservicer. The servicing is expected to be transferred to the buyer during the next few months.

The 2008 subservicing agreement expired in August 2011. In 2011, FHN entered into a replacement agreement which was recently amended and extended through 2014 with a new subservicer (the 2011 subservicer).

In 2011 regulators entered into consent decrees with several institutions requiring comprehensive revision of loan modification and foreclosure processes, including the remediation of borrowers that have experienced financial harm. The 2008 subservicer was subject to a consent decree and its parent company agreed to pay related monetary sanctions, among other things. In December 2012, the 2008 subservicer, along with certain others, entered into a settlement agreement with the OCC which replaced the consent decree. The new settlement requires remediation for all borrowers with in-process foreclosures dating from 2009 or 2010 and certain other foreclosure-avoidance assistance from parties to the settlement. The OCC, through a consultant, commenced the remediation process in April 2013 by mailing checks, which mailing was substantially completed in August 2013, from the settlement pool to eligible borrowers in amounts determined by the OCC. The remediation process should be completed during 2013.

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

FHN s 2008 subservicer has presented invoices and made demands under the 2008 subservicing agreement that FHN pay certain costs related to tax service contracts, miscellaneous transfer costs and servicing timeline penalties, compensatory damages, and curtailments charged prior to the servicing transfer by GSEs and a government agency in connection with FHN s transfer of subservicing to its 2011 subservicer in the amount of $8.6 million. The 2008 subservicer also is seeking reimbursement from FHN for expenditures the

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2008 subservicer has incurred or anticipates it will incur under the consent decree and supervisory guidance relating to foreclosure review (collectively, foreclosure review expenditures). The foreclosure review expenditures for which the 2008 subservicer presently seeks reimbursement total $34.9 million. The 2008 subservicer has indicated that additional reimbursement requests will be made as the foreclosure review process continues. FHN disputes that it has any responsibility or liability for either demand. In the event that the 2008 subservicer pursues its position through litigation, FHN believes it has meritorious defenses and intends to defend itself vigorously. FHN disagrees with the 2008 subservicer s position and has made no reimbursements. FHN also believes that certain amounts billed to FHN by agencies for penalties and curtailments on claims by MI insurers for actions by the 2008 subservicer prior to the 2011 subservicing transfer but billed after that date are owed by the 2008 subservicer. This disagreement has the potential to result in litigation and, in any such future litigation, the claim against FHN may be substantial.

In addition, the attorneys general of all 50 states concluded a joint investigation of foreclosure practices across the industry and proposed significant changes in servicing practices related to foreclosures and substantial penalties. In the first quarter of 2012 the Justice Department announced that the federal government and attorneys general of 49 states (the state of Oklahoma reached a separate agreement) reached a $25 billion settlement agreement with five of the largest servicers to address mortgage loan servicing and foreclosure abuses. The parent companies of those servicers paid additional monetary sanctions for failure to supervise. Neither FHN nor its 2008 or 2011 subservicers are parties to this settlement. Press reports indicate that other servicers may be approached to participate in the settlement. FHN s 2008 and 2011 subservicers have not advised that they have been involved recently in discussions regarding participation in these settlements. However, the sanctions agreed to in August 2012 by the 2008 subservicer s parent company reportedly have terms similar to the earlier parent company sanctions. FHN continues to review available information including guidance and proposed regulations from the OCC and the Bureau on servicing referenced below to ascertain the potential impact of the settlement agreement on servicing and foreclosure practices.

Also, as it relates to foreclosure practices, there have been both favorable and unfavorable rulings by courts in various states involving the requirements for the right to foreclose and the sufficiency of recordation of securitized mortgage loans. The ultimate impact of these decisions on the procedures and documentation required to foreclose securitized mortgage loans is not yet fully developed but could be unfavorable. FHN continues to work with its 2011 subservicer, and foreclosure counsel with the goal of ensuring that appropriate proof of ownership and documentation is presented at the time of each foreclosure proceeding.

FHN anticipates continued changes in foreclosure, loss mitigation, and servicing practices in response to the industry-wide servicing standards introduced by the OCC and other federal regulators in the consent decrees, the foreclosure settlement with the state attorneys general described above, the Federal Reserve Board s and the Bureau s proposal on servicing practices, regulations and mortgage servicing standards issued by the Bureau including those relating to vendor management, and applicable state laws modifying foreclosure and loss mitigation requirements. FHN cannot predict the costs of implementing the new servicing requirements. It also remains unclear what actions will be taken by individual states through attorneys general, or other third parties including borrowers, related to foreclosure and loss mitigation practices in the industry or specific actions by FHN or by its 2008 subservicer. Additionally, a financial crimes unit has been formed to review possible residential mortgage-backed securities fraud and the media reports that civil investigation demands have been issued to a number of parties and suits have been filed against some entities. FHN cannot predict the amount of operating costs, costs for foreclosure delays (including costs connected with servicing advances), legal expenses, or other costs (including title company indemnification) that may be incurred as a result of the internal reviews or external actions. No liability has been established.

CRITICAL ACCOUNTING POLICIES

There have been no changes to FHN s critical accounting policies as described in Critical Accounting Policies beginning on page 64 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2012, except as disclosed below.

MORTGAGE SERVICING RIGHTS AND OTHER RETAINED INTERESTS

When FHN sold mortgage loans in the secondary market to investors, it generally retained the right to service the loans sold in exchange for a servicing fee that is collected over the life of the loan as the payments are received from the borrower. An amount was capitalized as MSR on the Consolidated Condensed Statements of Condition at current fair value. In certain cases, FHN also retained excess interests which represent rights to receive earnings from serviced assets that exceed contractually specified servicing fees and are legally separable from the base servicing rights. Excess interests are included in Trading securities on the Consolidated Condensed Statements of Condition at current fair value.

MSR and Excess Interest Estimated Fair Value

FHN has elected fair value accounting for all classes of mortgage servicing rights. The fair value of MSR and excess interests typically rise as market interest rates increase and decline as market interest rates decrease; however, the extent to which this occurs depends in part on: (1) the

magnitude of changes in market interest rates and (2) the differential between the then current market interest rates for mortgage loans and the mortgage interest rates of loans sold with servicing or other interests retained.

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See Note 17 Fair Value of Assets and Liabilities, the Determination of Fair Value section for a description of FHN s valuation methodology for MSR and excess interests. In third quarter 2013, FHN agreed to sell substantially all of its legacy mortgage servicing, including excess interest. Completion of the sale is contingent upon customary closing conditions and will result in de-recognition of substantially all first lien MSR. FHN used the price in the definitive agreement, as adjusted for the portion of pricing that was not specific to the MSR and excess interest, as a third-party pricing source in the valuation of these assets. FHN relies primarily on a discounted cash flow model to estimate the fair value of MSR and excess interests. Estimating the cash flow components of net servicing income from the loan and the resultant fair value of the MSR requires FHN to make several critical assumptions based upon current market data. The primary critical assumptions used by FHN to estimate the fair value of excess interests are prepayment speeds and discount rates.

Prepayment Speeds: Generally, when market interest rates decline and other factors favorable to prepayments occur, there is a corresponding increase in prepayments as customers refinance existing mortgages under more favorable interest rate terms. When a mortgage loan is prepaid the anticipated cash flows associated with servicing that loan are terminated, resulting in a reduction of the fair value of the capitalized MSR and excess interests. To the extent that actual borrower prepayments do not react as anticipated by the prepayment model (i.e., the historical data observed in the model does not correspond to actual market activity), it is possible that the prepayment model could fail to accurately predict mortgage prepayments and could result in significant earnings volatility. To estimate prepayment speeds, FHN utilizes a third-party prepayment model, which is based upon statistically derived data linked to certain key principal indicators involving historical borrower prepayment activity associated with mortgage loans in the secondary market, current market interest rates, and other factors. For purposes of model valuation, estimates are made for each product type within the MSR and excess interest portfolio on a monthly basis.

Discount Rate: Represents the rate at which expected cash flows are discounted to arrive at the net present value of servicing income. Discount rates will change with market conditions (i.e., supply vs. demand) and be reflective of the yields expected to be earned by market participants investing in MSR or excess interests.

Cost to Service: Expected costs to service are estimated based upon the incremental costs that a market participant would use in evaluating the potential acquisition of MSR.

Float Income: Estimated float income is driven by expected float balances (principal, interest, and escrow payments that are held pending remittance to the investor or other third-party) and current market interest rates, including the thirty-day London Interbank Offered Rate (LIBOR) and five-year swap interest rates, which are updated on a monthly basis for purposes of estimating the fair value of MSR.

Prior to the agreement to sell substantially all legacy mortgage servicing in third quarter 2013, FHN engaged in a process referred to as price discovery on a quarterly basis to assess the reasonableness of the estimated fair value of retained interests. Price discovery was conducted through a process of obtaining the following information: (1) quarterly informal (and an annual formal) valuation of the servicing portfolio by prominent independent mortgage-servicing brokers and (2) a collection of surveys and benchmarking data made available by independent third parties that include peer participants in the mortgage banking business. Although there was no single source of market information that can be relied upon to assess the fair value of MSR or excess interests, FHN reviewed all information obtained during price discovery to determine whether the estimated fair value of MSR was reasonable when compared to market information. FHN determined that the MSR and excess interests valuations and assumptions as of September 30, 2013 and 2012, were reasonable.

The MSR Hedging Committee reviews the overall assessment of the estimated fair value of MSR and excess interests monthly and is responsible for approving the critical assumptions used by management to determine the estimated fair value of FHN s retained interests. In addition, this committee reviews the source of significant changes to the carrying values each quarter and was responsible for hedges and approving hedging strategies.

Hedging the Fair Value of MSR and Excess Interests

Prior to the agreement to sell substantially all legacy mortgage servicing in third quarter 2013, FHN entered into financial agreements to hedge a substantial portion of its retained interests in order to minimize the effects of loss in value of MSR and excess interests associated with increased prepayment activity that generally results from declining interest rates. See Note 15 Derivatives for information related to FHN s hedging of retained interests. The hedges were economic hedges only, and were terminated and reestablished as needed to respond to changes in market conditions. Successful economic hedging helped minimize earnings volatility that resulted from carrying MSR and excess interests at fair value. FHN did not specifically hedge the change in fair value of MSR or excess interests attributed to other risks, including unanticipated prepayments (representing the difference between actual prepayment experience and estimated prepayments derived from the model, as described above), discount rates, cost to service, and other factors. To the extent that these other factors resulted in changes to the fair values, FHN experienced volatility in current earnings due to the fact that these risks were not currently hedged.

REPURCHASE AND FORECLOSURE LIABILITY

Prior to September 2008, as a means to provide liquidity for its legacy mortgage banking business, FHN originated loans through its legacy mortgage business, primarily first lien home loans, with the intention of selling them. From 2005 through 2008, FHN originated and sold $69.5 billion of agency mortgage loans without recourse which includes $57.6 billion of loans sold to GSEs and $11.9 billion of loans guaranteed by Ginnie Mae. From 2005 through 2007, FHN securitized $26.7 billion of mortgage loans without recourse in proprietary transactions. Sales typically were effected either as non-recourse whole loan sales or through non-recourse proprietary securitizations. In addition, through its legacy mortgage business FHN originated with the intent to sell and sold HELOC and second lien mortgages through whole loan sales to private purchasers.

In addition, FHN has sold certain agency mortgage loans with full recourse under agreements to repurchase the loans upon default. Loans sold with full recourse generally include mortgage loans sold to investors in the secondary market which are uninsurable under government guaranteed mortgage loan programs due to issues associated with underwriting practices, documentation, or other concerns. For mortgage insured single-family residential loans, in the event of borrower nonperformance, FHN would assume losses to the extent they exceed the value of the collateral and MI, Federal Housing Administration (FHA) insurance, or Veterans Administration (VA) guaranty. Loans sold with limited recourse include loans sold under government guaranteed mortgage loan programs including the FHA and VA. FHN may absorb losses due to uncollected interest and foreclosure costs and/or limited risk of credit losses in the event of foreclosure of the mortgage loan sold. Generally, the amount of recourse liability in the event of foreclosure is determined based upon the respective government program and/or the sale or disposal of the foreclosed property collateralizing the mortgage loan. Additionally, loss related to repurchase obligations for loans sold with full or limited recourse represent a small amount of FHN s accrued liability for repurchase obligations.

For loans sold or securitized without recourse, FHN has obligations to either repurchase the loan for its outstanding principal balance or make the purchaser whole for the economic losses of the loan if it is determined that the loan sold was in violation of representations or warranties made by FHN upon closing of the sales. Contractual representations and warranties vary significantly depending upon the transaction and purchaser-type (agency versus private) of the loans transferred. Typical whole loan sales include relatively broad representations and warranties, while FH proprietary securitizations include more limited representations and warranties. A substantial majority of FHN s accrued liability for repurchase obligations for alleged breaches of representations and warranties relate to mortgage loans sold to GSEs. As of September 30, 2013, FHN has received no repurchase requests from the trustee of FH proprietary securitizations; however, as described in Note 10 Contingencies and Other Disclosures, FHN is defending several lawsuits by investors in FH proprietary securitizations. These litigation matters are in early stages and have not been resolved; at September 30, 2013, a small liability has been established for one of these lawsuits.

Repurchase Accrual Methodology

Estimating probable losses associated with FHN s repurchase obligations for alleged breaches of representations and warranties related to prior agency loan sales requires significant management judgment and assumptions. The loss estimation process relies on historical observed trends that may or may not be representative of future actual results such as observed loss severities, resolution statistics, delinquency trends, and historical average loan sizes. Additionally, the level of repurchase/make-whole request and associated losses are affected by external factors such as GSE review practices and selection criteria, housing prices, actions of MI companies, and economic conditions, all of which could change in the future.

In fourth quarter, FHN entered into a DRA, discussed above, to resolve certain selling representation and warranty repurchase obligations with Fannie Mae. During these discussions, FHN received additional information which was used to estimate repurchase liability levels at quarter-end. That information encompassed a broader population of loans including older vintages and expanded selection criteria from the remaining loan populations. The new information added the origination vintages of 2000 through 2004, expanded the scope of selections, and included estimates for losses from loans in early stage delinquency, modifications, and loans determined to have a higher probability of default. FHN used the new information to estimate losses related to potential repurchase obligations not included in the DRA with Fannie Mae including future MI rescissions, prior bulk servicing sales where FHN is no longer the directly responsible party but still has repurchase obligations, repurchase obligations for loan sales to Freddie Mac, and obligations related to other loan sales. Additionally, FHN continues to monitor claims included in the active pipeline, historical repurchase rates, and loss severities.

Based on currently available information and experience to date, FHN has evaluated its exposure under these obligations and accordingly had reserved for losses of $295.2 million and $293.5 million as of September 30, 2013 and 2012, respectively, including a smaller amount related to equity-lending junior lien loan sales. Accrued liabilities for FHN s estimate of these obligations are reflected in Other liabilities on the Consolidated Condensed Statements of Condition. Charges to increase the liability are included within Repurchase and foreclosure provision on the Consolidated Condensed Statements of Income. The estimate is based upon currently available information and fact patterns that exist as of the balance sheet date and could be subject to future changes. Changes to any one of these factors could significantly impact the estimate of FHN s liability. FHN continues to monitor trends in claims activity, loss severities, success rates, GSE review practices, and MI cancellations in

order to assess the adequacy of the repurchase liability. At September 30, 2013, FHN had not accrued for exposure for repurchase of loans related to FH proprietary securitizations arising from claims that FHN breached its representations and warranties made at closing, nor for exposure for investment rescission or damages arising from claims by investors that offering documents under which the loans were securitized were materially deficient.

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GOODWILL

In relation to the MNB acquisition on June 7, 2013, FHN recorded $6.2 million in goodwill which has been allocated to the regional banking segment (refer to Note 2 Acquisitions & Divestitures for additional information). There have been no changes to FHN s policies related to the recognition of goodwill or the impairment assessment processes.

ACCOUNTING CHANGES ISSUED BUT NOT CURRENTLY EFFECTIVE

In July 2013, the FASB issued ASU 2013-11, Income Taxes: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Generally, ASU 2013-11 requires that an unrecognized tax benefit should reduce a deferred tax asset (DTA) that has been established for a net operating loss (NOL), a tax credit carryforward, or other similar tax losses. However, if a filer does not have such carryforwards or similar tax losses at the reporting date, the uncertain tax position should be recorded as a liability. If a filer does have a DTA, but is not required by tax law of the applicable jurisdiction to use the DTA to settle additional taxes from the disallowance of a tax position and that is the filers intent, the uncertain tax position should be recognized as a liability in that situation as well and not netted with the DTA. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The provisions of ASU 2013-11 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The provisions of ASU 2013-11 should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. FHN does not expect the adoption of the provisions of ASU 2013-11 to have a material effect on FHN s statement of condition, results of operations, or cash flows.

In July 2013, the FASB issued ASU 2013-10, Derivatives and Hedging: Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. ASU 2013-10 provides guidance on the risks that are permitted to be hedged in a fair value or cash flow hedge. The provisions of ASU 2013-10 permit the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes under ASC 815, in addition to U.S. Treasury rates and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. The provisions of ASU 2013-10 are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. FHN may apply the provisions of ASU 2013-10 to future hedging relationships.

NON-GAAP Information

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

Table 24 Non-GAAP to GAAP Reconciliation

	Three Months Ended September 30	
(Dollars in thousands)	**2013**	2012
Net interest income adjusted for impact of fully taxable equivalent (FTE) (Non-GAAP)		
Net interest income (GAAP)	**$ 158,838**	$ 173,465
FTE adjustment	**1,894**	1,752
Net interest income adjusted for impact of FTE (Non-GAAP)	**$ 160,732**	$ 175,217

(Dollars in thousands)	September 30 **2013**	 2012	December 31 2012
Tier 1 Common (Non-GAAP)			
(A) Tier 1 capital (a)	**$ 2,555,141**	$ 2,641,392	$ 2,640,776
Less: Noncontrolling interest FTBNA preferred stock (b)	**294,816**	294,816	294,816
Less: Preferred stock	**95,624**		
Less: Trust preferred (c)	**200,000**	200,000	200,000
(B) Tier 1 common (Non-GAAP)	**$ 1,964,701**	$ 2,146,576	$ 2,145,960
Risk Weighted Assets			
(C) Risk weighted assets (a)	**$ 19,275,526**	$ 20,082,978	$ 20,153,430
Total Assets			
(D) Total assets (GAAP)	**$ 24,193,341**	$ 25,739,830	$ 25,520,140
Ratios			
(B)/(C) Tier 1 common to risk weighted assets (Non-GAAP)	**10.19 %**	10.69 %	10.65 %
(A)/(D) Tier 1 capital to total assets (GAAP)	**10.56 %**	10.26 %	10.35 %

(a) Defined by and calculated in conformity with bank regulations.

(b) Represents FTBNA preferred stock included in noncontrolling interest. Included in Total equity on the Consolidated Condensed Statements of Condition.

(c) Included in Term borrowings on the Consolidated Condensed Statements of Condition.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

The information called for by this item is contained in

(a) Management s Discussion and Analysis of Financial Condition and Results of Operations included as Item 2 of Part I of this report, including in particular the section entitled Risk Management beginning on page 104 of this report and the subsections entitled Market Risk Management beginning on page 104 and Interest Rate Risk Management beginning on page 106 of this report,

(b) Note 15 to the Consolidated Condensed Financial Statements appearing on pages 52-57 of this report,

(c) Management s Discussion and Analysis of Financial Condition and Results of Operations appearing in FHN s 2012 Annual Report to shareholders, including in particular the section entitled Risk Management beginning on page 44 of that Report and the subsections entitled Market Risk Management appearing on page 45 and Interest Rate Risk Management appearing on pages 46-49 of that Report, and

(d) Note 25 to the Consolidated Financial Statements appearing on pages 180-184 of FHN s 2012 Annual Report to shareholders,

all of which materials are incorporated herein by reference. FHN s Management s Discussion and Analysis of Financial Condition and Results of Operations, Consolidated Financial Statements, and related Notes appearing in FHN s 2012 Annual Report to shareholders all were filed as part of Exhibit 13 to FHN s annual report on Form 10-K for the year ended December 31, 2012. Portions of the Annual Report not incorporated herein by reference are deemed not to be filed with the Commission with this report.

Item 4. Controls and Procedures

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

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

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Part II.

OTHER INFORMATION

Item 1 Legal Proceedings

The Contingencies section of Note 10 to the Consolidated Condensed Financial Statements beginning on page 30 of this Report is incorporated into this Item by reference.

Item 1A Risk Factors

Not applicable

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

(a) & (b) Not Applicable

(c) The Issuer Purchases of Common Stock Table, including the explanatory notes, is incorporated herein by reference to Table 9 and the explanatory notes included in Item 2 of Part I First Horizon National Corporation Management s Discussion and Analysis of Financial Condition and Results of Operations on page 93.

Items 3, 4, and 5

Not applicable

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Item 6. Exhibits

(a) Exhibits

For exhibits marked * the Corporation agrees to furnish copies of the instruments, including indentures, defining the rights of the holders of the long-term debt of the Corporation and its consolidated subsidiaries to the Securities and Exchange Commission upon request.

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

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

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

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

Exhibit No.	Description
*4	Instruments defining the rights of security holders, including indentures
**10.1	Rate Applicable to Participating Directors and Executive Officers under the Directors and Executives Deferred Compensation Plan
13	The Interest Rate Risk Management subsection of the Management s Discussion and Analysis of Financial Condition and Results of Operations section and the Interest Rate Risk Management subsection of Note 25 to the Corporation s consolidated financial statements, contained, respectively, at pages 46-49 and pages 182-184 in the Corporation s 2012 Annual Report to shareholders, which material is incorporated herein by reference. That Report was furnished to shareholders in connection with the Annual Meeting of Shareholders on May 2, 2013 and portions of that Report, including those portions incorporated herein by reference, were filed by the Corporation as part of Exhibit 13 to its annual report on Form 10-K for the year ended December 31, 2012. Portions of the Annual Report not incorporated herein by reference are deemed not to be filed with the Commission with this report.
31(a)	Rule 13a-14(a) Certifications of CEO (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)
31(b)	Rule 13a-14(a) Certifications of CFO (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)
***32(a)	18 USC 1350 Certifications of CEO (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)
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****101	The following financial information from First Horizon National Corporation s Quarterly Report on Form-10Q for the quarter ended September 30, 2013, formatted in XBRL: (i) Consolidated Condensed Statements of Condition (Unaudited) at September 30, 2013 and 2012, and December 31, 2012; (ii) Consolidated Condensed Statements of Income (Unaudited) for the Three and Nine Months Ended September 30, 2013 and 2012; (iii) Consolidated Condensed Statements of Comprehensive Income (Unaudited) for the Three and Nine Months Ended September 30, 2013 and 2012; (iv) Consolidated Condensed Statements of Equity (Unaudited) for the Nine Months Ended September 30, 2013 and 2012; (v) Consolidated Condensed Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2013 and 2012; (vi) Notes to Consolidated Condensed Financial Statements (Unaudited).
****101.INS	XBRL Instance Document
****101.SCH	XBRL Taxonomy Extension Schema
****101.CAL	XBRL Taxonomy Extension Calculation Linkbase

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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST HORIZON NATIONAL CORPORATION
(Registrant)

DATE: November 7, 2013

By: /s/ William C. Losch III
Name: William C. Losch III
Title: Executive Vice President and Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

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EXHIBIT INDEX

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