FIRST HORIZON NATIONAL CORP
Form 10-Q
November 06, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from to

Commission File Number 001-15185

First Horizon National Corporation

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	**Outstanding on September 30, 2014**
Common Stock, $.625 par value	235,248,564

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FIRST HORIZON NATIONAL CORPORATION

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PART I.

FINANCIAL INFORMATION

Item 1. Financial Statements

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

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CONSOLIDATED CONDENSED STATEMENTS OF CONDITION

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

Other interest-bearing deposits	**3,955,152**	3,494,236	3,859,079
Certificates of deposit $100,000 and more	**446,938**	575,679	553,957
Interest-bearing	**11,540,945**	11,849,163	12,097,117
Noninterest-bearing	**4,603,826**	4,434,746	4,637,839
Total deposits	**16,144,771**	16,283,909	16,734,956
Federal funds purchased	**928,159**	1,062,901	1,042,633
Securities sold under agreements to repurchase (Note 16)	**479,384**	427,232	442,789
Trading liabilities	**532,234**	585,969	368,348
Other short-term borrowings	**790,080**	303,686	181,146
Term borrowings (Restricted $.1 billion on September 30, 2014; September 30, 2013; and December 31, 2013)	**1,491,138**	1,771,288	1,739,859
Capital markets payables	**329,960**	53,784	21,173
Derivative liabilities (Note 15)	**123,442**	165,918	154,280
Other liabilities	**545,678**	770,773	603,898
Total liabilities (Restricted $.1 billion on September 30, 2014; September 30, 2013; and December 31, 2013)	**21,364,846**	21,425,460	21,289,082
Equity:			
First Horizon National Corporation Shareholders Equity:			
Preferred stock Series A, non-cumulative perpetual, no par value, liquidation preference of $100,000 per share (shares authorized 1,000; shares issued 1,000 on September 30, 2014, September 30, 2013 and December 31, 2013)	**95,624**	95,624	95,624
Common stock $.625 par value (shares authorized 400,000,000; shares issued 235,248,564 on September 30, 2014; 236,328,090 on September 30, 2013; and 236,369,554 on December 31, 2013)	**147,030**	147,705	147,731
Capital surplus	**1,390,081**	1,413,248	1,416,767
Undivided profits	**826,610**	657,676	695,207
Accumulated other comprehensive loss, net (Note 9)	**(132,835)**	(176,391)	(150,009)
Total First Horizon National Corporation Shareholders Equity	**2,326,510**	2,137,862	2,205,320
Noncontrolling interest	**295,431**	295,431	295,431
Total equity	**2,621,941**	2,433,293	2,500,751
Total liabilities and equity (Restricted $.1 billion on September 30, 2014; September 30, 2013; and December 31, 2013)	**$ 23,986,787**	$ 23,858,753	$ 23,789,833

See accompanying notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME

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

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

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

See accompanying notes to consolidated condensed financial statements.

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

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

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CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

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

See accompanying notes to consolidated condensed financial statements.

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

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

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

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

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

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

See accompanying notes to consolidated condensed financial statements.

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

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Notes to the Consolidated Condensed Financial Statements (Unaudited)

Note 1 Financial Information

Basis of Accounting. The unaudited interim consolidated condensed financial statements of First Horizon National Corporation (FHN), including its subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States of America and follow general practices within the industries in which it operates. This preparation requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions are based on information available as of the date of the financial statements and could differ from actual results. In the opinion of management, all necessary adjustments have been made for a fair presentation of financial position and results of operations for the periods presented. These adjustments are of a normal recurring nature unless otherwise disclosed in this Quarterly Report on Form 10-Q. The operating results for the interim 2014 periods are not necessarily indicative of the results that may be expected going forward. For further information, refer to the audited consolidated financial statements in the 2013 Annual Report to shareholders, which were filed as Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2013.

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

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

In January 2014, the FASB issued ASU 2014-04, Receivables Troubled Debt Restructurings by Creditors: Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. ASU 2014-04 clarifies that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU 2014-04 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt ASU 2014-04 using either a modified retrospective transition method or a prospective transition method. Under the modified retrospective transition method, an entity should apply ASU 2014-04 by means of a cumulative-effect adjustment to residential consumer mortgage loans and foreclosed residential real estate properties existing as of the beginning of the annual period for which the amendments are effective. Early adoption is permitted. FHN is evaluating the requirements of ASU 2014-04 with respect to its current foreclosure accounting practices.

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Note 1 Financial Information (Continued)

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

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

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

In August 2014, the FASB issued ASU 2014-14, Classification of Certain Government-Guaranteed Mortgage Loan upon Foreclosure. ASU 2014-14 requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if 1) the loan has a government guarantee that it not separable from the loan before foreclosure, 2) at the time of foreclosure the creditor has the intent to convey the real estate to the guarantor and make a recoverable claim on the guarantee and 3) at the time of foreclosure any amount of the claim that is based on the fair value of the real estate is fixed. For qualifying foreclosures, the amount of the receivable recognized should be measured based on the amount of the loan balance expected to be recovered from the guarantor. ASU 2014-14 is effective for annual and interim periods beginning after December 15, 2014 and may be adopted through either a prospective only approach or through a reclassification from other real estate owned to other receivable on the effective date. FHN currently classifies foreclosed properties with government guarantees within other real estate owned and is evaluating the transition alternatives.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern. ASU 2014-15 requires an entity s management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern within one year after the date that the financial statements are issued. If such events or conditions exist, additional disclosures are required and management should evaluate whether its plans sufficiently alleviate the substantial doubt. ASU 2014-15 is effective for the annual period ending after December 15, 2015 and all interim and annual periods thereafter. The provisions of ASU 2014-15 are not anticipated to affect FHN.

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Note 2 Acquisitions and Divestitures

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

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

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

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

On October 21, 2014, FHN entered into an agreement with TrustAtlantic Financial Corporation (TrustAtlantic Financial) by which TrustAtlantic Financial will merge into a subsidiary of FHN. TrustAtlantic Financial owns all the capital stock of TrustAtlantic Bank. Trust Atlantic Financial and TrustAtlantic Bank are headquartered in Raleigh, North Carolina. TrustAtlantic Bank has five branches located in North Carolina in the communities of Raleigh, Cary and Greenville. At September 30, 2014, TrustAtlantic Financial reported on a consolidated basis approximately $453 million of total assets and approximately $395 million of total deposits. The aggregate transaction value is estimated to be approximately $80 million, based on FHN s common stock value at the time the agreement was signed. The transaction is expected to close in the first half of 2015, subject to the approval of the shareholders of TrustAtlantic Financial as well as regulatory approvals and other customary conditions to closing.

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

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Note 3 Investment Securities

The following tables summarize FHN s investment securities on September 30, 2014 and 2013:

	September 30, 2014			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale (AFS):				
U.S. treasuries	$ 100	$	$	$ 100
Government agency issued mortgage-backed securities (MBS)	685,426	33,820	(2,381)	716,865
Government agency issued collateralized mortgage obligations (CMO)	2,648,047	15,637	(39,999)	2,623,685
Other U.S. government agencies	1,859	70		1,929
States and municipalities	10,205			10,205
Equity and other (a)	182,119		(232)	181,887
Total securities available-for-sale (b)	**$ 3,527,756**	**$ 49,527**	**$ (42,612)**	**$ 3,534,671**
Securities held-to-maturity (HTM):				
States and municipalities	$ 4,286	$ 1,094	$	$ 5,380
Total securities held-to-maturity	**$ 4,286**	**$ 1,094**	**$**	**$ 5,380**

(a) Includes restricted investments in FHLB-Cincinnati stock of $87.9 million and FRB stock of $66.0 million. The remainder is money market and cost method investments.
(b) Includes $3.2 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.

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

(a) Includes restricted investments in FHLB-Cincinnati stock of $128.0 million and FRB stock of $66.0 million. The remainder is money market, venture capital, and cost method investments.

(b) Includes $2.9 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.

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

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

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

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Note 3 Investment Securities (Continued)

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

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

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

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

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

	As of September 30, 2014					
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government agency issued CMO	$ 724,834	$ (5,113)	$ 949,556	$ (34,886)	$ 1,674,390	$ (39,999)
Government agency issued MBS	32,621	(244)	103,858	(2,137)	136,479	(2,381)
Total debt securities	757,455	(5,357)	1,053,414	(37,023)	1,810,869	(42,380)
Equity	849	(198)	10	(34)	859	(232)
Total temporarily impaired securities	$ 758,304	$ (5,555)	$ 1,053,424	$ (37,057)	$ 1,811,728	$ (42,612)

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

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

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Note 4 Loans

The following table provides the balance of loans by portfolio segment as of September 30, 2014 and 2013, and December 31, 2013:

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

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

(b) Balances as of September 30, 2013, and December 31, 2013 include $11.7 million and $11.2 million of restricted and secured real estate loans, respectively. See Note 14 Variable Interest Entities for additional information.

COMPONENTS OF THE LOAN PORTFOLIO

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

Concentrations

FHN has a concentration of residential real estate loans (36 percent of total loans), the majority of which is in the consumer real estate portfolio (32 percent of total loans). Loans to finance and insurance companies total $1.9 billion (22 percent of the C&I portfolio, or 12 percent of the total loans). FHN had loans to mortgage companies totaling $1.0 billion (11 percent of the C&I portfolio, or 6 percent of total loans) as of September 30, 2014. As a result, 33 percent of the C&I category was sensitive to impacts on the financial services industry.

Acquisition

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

PCI Loans

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

Note 4 Loans (Continued)

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

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

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

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

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

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

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

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

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

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Note 4 Loans (Continued)

Impaired Loans

The following tables provide information at September 30, 2014 and 2013, by class related to individually impaired loans and consumer TDR s. Recorded investment is defined as the amount of the investment in a loan, before valuation allowance but which does reflect any direct write-down of the investment. For purposes of this disclosure, PCI loans and LOCOM have been excluded.

	September 30, 2014			Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:							
Commercial:							
General C&I	$ 15,594	$ 17,185	$	$ 15,542	$	$ 16,910	$
TRUPS						1,083	
Income CRE	6,819	14,379		6,829		7,670	
Residential CRE	1,148	1,827		1,148		574	
Total	$ 23,561	$ 33,391	$	$ 23,519	$	$ 26,237	$
Retail:							
HELOC (a)	$ 14,036	$ 34,693	$	$ 15,713	$	$ 16,324	$
R/E installment loans (a)	5,640	7,221		6,552		8,729	
Permanent mortgage (a)	7,616	10,023		7,739		7,918	
Total	$ 27,292	$ 51,937	$	$ 30,004	$	$ 32,971	$
Impaired loans with related allowance recorded:							
Commercial:							
General C&I	$ 18,393	$ 22,579	$ 2,229	$ 25,394	$ 79	$ 25,895	$ 236
TRUPS	13,490	13,700	3,810	8,505		13,540	
Income CRE	8,735	10,107	481	8,789	62	10,406	226
Residential CRE	5,663	11,111	623	5,846	59	6,233	183
Total	$ 46,281	$ 57,497	$ 7,143	$ 48,534	$ 200	$ 56,074	$ 645
Retail:							
HELOC	$ 81,422	$ 82,813	$ 17,061	$ 79,352	$ 448	$ 75,476	$ 1,339
R/E installment loans	73,434	74,690	24,431	74,091	306	73,783	872

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

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

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Note 4 Loans (Continued)

	September 30, 2013			Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:							
Commercial:							
General C&I	$ 34,193	$ 43,677	$	$ 40,812	$	$ 51,845	$ 108
TRUPS	6,500	6,500		6,500		10,583	
Income CRE	12,939	24,219		17,959		24,828	168
Residential CRE		182		5,483		10,860	122
Total	$ 53,632	$ 74,578	$	$ 70,754	$	$ 98,116	$ 398
Retail:							
HELOC (a)	$ 18,323	$ 40,867	$	$ 19,016	$	$ 20,032	$
R/E installment loans (a)	11,632	15,102		11,913		12,166	
Permanent mortgage (a)	11,120	14,531		11,127		10,690	
Total	$ 41,075	$ 70,500	$	$ 42,056	$	$ 42,888	$
Impaired loans with related allowance recorded:							
Commercial:							
General C&I	$ 31,672	$ 38,075	$ 2,447	$ 27,944	$ 71	$ 16,319	$ 108
TRUPS	33,610	33,610	13,255	38,655		39,185	
Income CRE	10,274	11,330	765	7,552	70	3,859	96
Residential CRE	7,053	12,383	816	4,567	68	1,869	84
Total	$ 82,609	$ 95,398	$ 17,283	$ 78,718	$ 209	$ 61,232	$ 288
Retail:							
HELOC	$ 68,903	$ 71,708	$ 15,702	$ 68,287	$ 483	$ 65,005	$ 1,373
R/E installment loans	71,543	72,686	22,724	75,084	336	72,571	1,025
Permanent mortgage	117,004	129,702	18,646	114,501	776	111,880	2,164
Credit card & other	648	648	212	682	7	732	23
Total	$ 258,098	$ 274,744	$ 57,284	$ 258,554	$ 1,602	$ 250,188	$ 4,585
Total commercial	$ 136,241	$ 169,976	$ 17,283	$ 149,472	$ 209	$ 159,348	$ 686
Total retail	$ 299,173	$ 345,244	$ 57,284	$ 300,610	$ 1,602	$ 293,076	$ 4,585

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

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

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

Asset Quality Indicators

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

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Note 4 Loans (Continued)

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

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

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Note 4 Loans (Continued)

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

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

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

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

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Note 4 Loans (Continued)

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

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

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

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

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

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Note 4 Loans (Continued)

Nonaccrual and Past Due Loans

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

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

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

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

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

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Note 4 Loans (Continued)

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

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

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

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

Troubled Debt Restructurings

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

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

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

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Note 4 Loans (Continued)

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

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

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

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

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

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

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

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Note 4 Loans (Continued)

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

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

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

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

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

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Note 5 Allowance for Loan Losses

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

Commercial

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

Retail

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

Individually Impaired

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

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

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Note 5 Allowance for Loan Losses (Continued)

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

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

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

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

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

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Note 6 Mortgage Servicing Rights

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

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

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

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

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

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Note 7 Intangible Assets

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

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

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

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

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

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

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

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Note 8 Other Income and Other Expense

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

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

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

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Note 9 Changes in Accumulated Other Comprehensive Income Balances

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

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

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

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

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

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

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Note 10 Earnings Per Share

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

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

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

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

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

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

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

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

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Note 11 Contingencies and Other Disclosures

Contingencies

General

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

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

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

Litigation Loss Contingencies

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

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

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

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Note 11 Contingencies and Other Disclosures (Continued)

Certain Matters Included in Reasonably Possible Loss Range

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

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

Certain Matters Not Included in Reasonably Possible Loss Range

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

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

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

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

First Horizon Branded Mortgage Securitization Litigation Matters

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

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

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Note 11 Contingencies and Other Disclosures (Continued)

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

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

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

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

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

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

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

Note 11 Contingencies and Other Disclosures (Continued)

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

Legacy Home Loan Sales and Servicing

Overview

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

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

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

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

Loans Sold With Full or Limited Recourse

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

Note 11 Contingencies and Other Disclosures (Continued)

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

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

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

Agency Whole-Loan Sales

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

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

GSE Definitive Resolution Agreements

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

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

Other Whole-Loan Sales

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

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

Note 11 Contingencies and Other Disclosures (Continued)

First Horizon Branded Proprietary Mortgage Securitizations

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

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

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

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

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

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

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Note 11 Contingencies and Other Disclosures (Continued)

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

Monoline Insurance

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

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

Other First Horizon Branded Proprietary Securitizations

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

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

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

Other Government Entity Loan Reviews

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

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

Note 11 Contingencies and Other Disclosures (Continued)

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

Private Mortgage Insurance

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

Established Repurchase Liability

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

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

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

Servicing and Foreclosure Practices

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

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

Note 11 Contingencies and Other Disclosures (Continued)

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

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

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

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

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

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

Other Disclosures Visa Matters

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

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Note 11 Contingencies and Other Disclosures (Continued)

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

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

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

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

Other Disclosures Indemnification Agreements and Guarantees

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

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Note 12 Pension, Savings, and Other Employee Benefits

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

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

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

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

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

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

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

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

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

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

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

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

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Note 13 Business Segment Information

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

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

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

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

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Note 13 Business Segment Information (Continued)

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

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

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

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Note 14 Variable Interest Entities

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

Consolidated Variable Interest Entities

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

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

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

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Note 14 Variable Interest Entities (Continued)

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

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

Nonconsolidated Variable Interest Entities

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

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

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

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Note 14 Variable Interest Entities (Continued)

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

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

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

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

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

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

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

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Note 14 Variable Interest Entities (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Note 14 Variable Interest Entities (Continued)

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

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

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

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

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

Retained Interests

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

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

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

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

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Note 14 Variable Interest Entities (Continued)

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

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

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

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

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

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Note 15 Derivatives

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

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

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

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

Capital Markets

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

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Note 15 Derivatives (Continued)

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

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

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

Interest Rate Risk Management

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

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

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

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

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

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Note 15 Derivatives (Continued)

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

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

				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)

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

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

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

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Note 15 Derivatives (Continued)

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

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

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

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

Other Derivatives

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

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

Legacy Mortgage Servicing Operations

Retained Interests

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

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

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Note 15 Derivatives (Continued)

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

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

Master Netting and Similar Agreements

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

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

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

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

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

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

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Note 15 Derivatives (Continued)

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

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

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

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

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

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

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

Gross amounts not offset in the Statement of Condition

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

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

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

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

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

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

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

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

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

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

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

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Note 17 Fair Value of Assets & Liabilities

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

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

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

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

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

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Note 17 Fair Value of Assets & Liabilities (Continued)

Recurring Fair Value Measurements

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

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

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

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Note 17 Fair Value of Assets & Liabilities (Continued)

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

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

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

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Note 17 Fair Value of Assets & Liabilities (Continued)

Changes in Recurring Level 3 Fair Value Measurements

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

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

	Three Months Ended September 30, 2013						
			Securities available-for-sale		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)(b)					
Balance on September 30, 2013	$ 15,719	$ 229,760	$ 4,028	$ 4,300	$ 116,686	$ (2,745)	$ (11,715)

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

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

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

(c) Included in Other expense.

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Note 17 Fair Value of Assets & Liabilities (Continued)

Changes in Recurring Level 3 Fair Value Measurements

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

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

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

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

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

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

(c) Included in Other expense.

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

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Note 17 Fair Value of Assets & Liabilities (Continued)

Nonrecurring Fair Value Measurements

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

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

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

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

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

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

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Note 17 Fair Value of Assets & Liabilities (Continued)

Level 3 Measurements

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

(Dollars in Thousands)

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

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

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

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

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

(d) Represents tax credit investments.

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Note 17 Fair Value of Assets & Liabilities (Continued)

(Dollars in Thousands)

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

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

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

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

Note 17 Fair Value of Assets & Liabilities (Continued)

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

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

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

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

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

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

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

Note 17 Fair Value of Assets & Liabilities (Continued)

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

Fair Value Option

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

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

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

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

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

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

Note 17 Fair Value of Assets & Liabilities (Continued)

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

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

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

Determination of Fair Value

In accordance with ASC 820-10-35, fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following describes the assumptions and methodologies used to estimate the fair value of financial instruments and MSR recorded at fair value in the Consolidated Condensed Statements of Condition and for estimating the fair value of financial instruments for which fair value is disclosed under ASC 825-10-50.

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

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

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

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

Note 17 Fair Value of Assets & Liabilities (Continued)

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

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

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

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

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

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

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

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

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

Note 17 Fair Value of Assets & Liabilities (Continued)

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

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

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

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

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

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

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

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

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

Note 17 Fair Value of Assets & Liabilities (Continued)

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

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

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

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

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

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

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

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

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

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Note 17 Fair Value of Assets & Liabilities (Continued)

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

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

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

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

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

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Note 17 Fair Value of Assets & Liabilities (Continued)

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

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

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

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

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Note 17 Fair Value of Assets & Liabilities (Continued)

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

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

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Note 18 Restructuring, Repositioning, and Efficiency

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

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

- Severance and other employee costs of $2.5 million primarily related to efficiency initiatives within corporate and bank services functions which are classified as Employee compensation, incentives and benefits within noninterest expense.
- Lease abandonment expenses of $4.7 million primarily related to efficiency initiatives within corporate and bank services functions which are classified as Occupancy within noninterest expense.

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

- Severance and other employee costs of $2.6 million primarily related to efficiency initiatives within corporate and bank services functions which are classified as Employee compensation, incentives and benefits within noninterest expense.
- Expense of $2.2 million related to estimated costs for obligations associated with a definitive agreement to sell substantially all remaining legacy mortgage servicing which is reflected in Mortgage banking income.

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

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

	Three Months Ended September 30				Nine Months Ended September 30			
	2014		2013		**2014**		2013	
(Dollars in thousands)	**Expense**	**Liability**	Expense	Liability	**Expense**	**Liability**	Expense	Liability
Beginning balance		**$ 7,247**		$ 4,277		**$ 3,126**		$ 19,775
Severance and other employee related costs	**$ 926**	**926**	$ 1,160	1,160	**$ 2,495**	**2,495**	$ 2,620	2,620
Facility consolidation costs	**49**	**49**	38	38	**4,657**	**4,657**	416	416

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