

FIRST HORIZON NATIONAL CORP
Form 10-Q
November 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from _____ to _____
Commission File Number 001-15185

First Horizon National Corporation
(Exact name of registrant as specified in its charter)

TN	62-0803242
(State or other jurisdiction incorporation of organization)	(IRS Employer Identification No.)

165 MADISON AVENUE	38103
MEMPHIS, TENNESSEE	
(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. 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). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging Growth Company (Do not check if a smaller reporting company)

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes 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, 2018
Common Stock, \$.625 par value	323,942,816

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PART I.
FINANCIAL INFORMATION

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

CONSOLIDATED CONDENSED STATEMENTS OF CONDITION

	First Horizon National Corporation (Unaudited)	
	September 30 2018	December 31 2017
(Dollars in thousands, except per share amounts)		
Assets:		
Cash and due from banks	\$ 642,051	\$ 639,073
Federal funds sold	113,722	87,364
Securities purchased under agreements to resell (Note 15)	687,437	725,609
Total cash and cash equivalents	1,443,210	1,452,046
Interest-bearing cash	531,681	1,185,600
Trading securities	1,930,991	1,416,345
Loans held-for-sale (a)	725,651	699,377
Securities available-for-sale (Note 3)	4,608,383	5,170,255
Securities held-to-maturity (Note 3)	10,000	10,000
Loans, net of unearned income (Note 4) (b)	27,350,214	27,658,929
Less: Allowance for loan losses (Note 5)	185,959	189,555
Total net loans	27,164,255	27,469,374
Goodwill (Note 6)	1,409,822	1,386,853
Other intangible assets, net (Note 6)	161,495	184,389
Fixed income receivables	177,802	68,693
Premises and equipment, net (September 30, 2018 and December 31, 2017 include \$30.1 million and \$53.2 million, respectively, classified as held-for-sale)	506,453	532,251
Other real estate owned ("OREO") (c)	28,628	43,382
Derivative assets (Note 14)	54,476	81,634
Other assets	1,883,077	1,723,189
Total assets	\$ 40,635,924	\$ 41,423,388
Liabilities and equity:		
Deposits:		
Savings (December 31, 2017 includes \$22.6 million classified as held-for-sale)	\$ 11,157,023	\$ 10,872,665
Time deposits, net (December 31, 2017 includes \$8.0 million classified as held-for-sale)	4,056,184	3,322,921
Other interest-bearing deposits	7,768,997	8,401,773
Interest-bearing	22,982,204	22,597,359
Noninterest-bearing (December 31, 2017 includes \$4.8 million classified as held-for-sale)	8,025,881	8,023,003
Total deposits	31,008,085	30,620,362
Federal funds purchased	437,474	399,820
Securities sold under agreements to repurchase (Note 15)	678,510	656,602
Trading liabilities	739,694	638,515
Other short-term borrowings	1,069,912	2,626,213
Term borrowings	1,200,134	1,218,097
Fixed income payables	36,939	48,996
Derivative liabilities (Note 14)	170,324	85,061
Other liabilities	552,921	549,234
Total liabilities	35,893,993	36,842,900
Equity:		
First Horizon National Corporation Shareholders' Equity:	95,624	95,624

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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, 2018 and December 31, 2017)		
Common stock - \$.625 par value (shares authorized - 400,000,000; shares issued - 323,942,816 on September 30, 2018 and 326,736,214 on December 31, 2017)	202,464	204,211
Capital surplus	3,101,102	3,147,613
Undivided profits	1,484,959	1,160,434
Accumulated other comprehensive loss, net (Note 8)	(437,649) (322,825)
Total First Horizon National Corporation Shareholders' Equity	4,446,500	4,285,057
Noncontrolling interest	295,431	295,431
Total equity	4,741,931	4,580,488
Total liabilities and equity	\$ 40,635,924	\$ 41,423,388

See accompanying notes to consolidated condensed financial statements.

- (a) September 30, 2018 and December 31, 2017 include \$9.2 million and \$11.7 million, respectively, of held-for-sale consumer mortgage loans secured by residential real estate in process of foreclosure.
- (b) September 30, 2018 and December 31, 2017 include \$20.8 million and \$22.7 million, respectively, of held-to-maturity consumer mortgage loans secured by residential real estate in process of foreclosure.
- (c) September 30, 2018 and December 31, 2017 include \$11.0 million and \$12.2 million, respectively, of foreclosed residential real estate.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	First Horizon National Corporation			
	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars and shares in thousands except per share data, unless otherwise noted) (Unaudited)	2018	2017	2018	2017
Interest income:				
Interest and fees on loans	\$331,000	\$205,220	\$954,467	\$578,264
Interest on investment securities available-for-sale	32,391	25,575	97,872	76,867
Interest on investment securities held-to-maturity	131	131	394	460
Interest on loans held-for-sale	9,977	6,123	33,349	10,916
Interest on trading securities	14,130	8,262	43,280	24,033
Interest on other earning assets	6,040	2,834	15,473	11,757
Total interest income	393,669	248,145	1,144,835	702,297
Interest expense:				
Interest on deposits:				
Savings	30,022	10,920	70,522	31,324
Time deposits	14,667	2,591	35,428	8,342
Other interest-bearing deposits	14,401	6,759	36,922	15,976
Interest on trading liabilities	5,125	3,298	15,039	11,282
Interest on short-term borrowings	9,762	4,998	29,914	9,293
Interest on term borrowings	13,992	9,762	39,205	25,854
Total interest expense	87,969	38,328	227,030	102,071
Net interest income	305,700	209,817	917,805	600,226
Provision/(provision credit) for loan losses	2,000	—	1,000	(3,000)
Net interest income after provision/(provision credit) for loan losses	303,700	209,817	916,805	603,226
Noninterest income:				
Fixed income	44,813	55,758	128,016	161,546
Deposit transactions and cash management	35,792	28,011	107,859	80,434
Brokerage, management fees and commissions	14,200	11,937	41,423	35,872
Trust services and investment management	7,438	6,953	22,847	21,304
Bankcard income	6,878	6,170	19,958	17,230
Bank-owned life insurance ("BOLI")	4,337	3,539	14,103	11,137
Debt securities gains/(losses), net (Note 3 and Note 8)	—	1	52	450
Equity securities gains/(losses), net (Note 3)	212,859	5	212,924	5
All other income and commissions (Note 7)	22,655	43	65,332	29,051
Total noninterest income	348,972	112,417	612,514	357,029
Adjusted gross income after provision/(provision credit) for loan losses	652,672	322,234	1,529,319	960,255
Noninterest expense:				
Employee compensation, incentives, and benefits	164,839	137,383	501,983	410,153
Occupancy	20,002	13,619	62,956	38,759
Computer software	15,693	11,993	45,948	35,077
Operational services	13,121	10,805	43,335	33,204
Equipment rentals, depreciation, and maintenance	9,423	6,626	30,149	20,013
Professional fees	9,270	6,566	36,957	20,971
Advertising and public relations	8,365	5,205	17,034	13,901
FDIC premium expense	7,850	6,062	26,442	17,728
Communications and courier	7,014	4,328	22,776	12,245

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Amortization of intangible assets	6,460	1,964	19,394	5,160
Contract employment and outsourcing	4,314	2,762	14,274	8,975
Legal fees	2,541	2,052	7,670	10,831
Repurchase and foreclosure provision/(provision credit)	(562)	(609)	(886)	(22,580)
All other expense (Note 7)	25,701	28,113	112,032	72,554
Total noninterest expense	294,031	236,869	940,064	676,991
Income/(loss) before income taxes	358,641	85,365	589,255	283,264
Provision/(benefit) for income taxes	83,925	13,596	133,553	57,903
Net income/(loss)	\$274,716	\$71,769	\$455,702	\$225,361
Net income attributable to noncontrolling interest	2,883	2,883	8,555	8,555
Net income/(loss) attributable to controlling interest	\$271,833	\$68,886	\$447,147	\$216,806
Preferred stock dividends	1,550	1,550	4,650	4,650
Net income/(loss) available to common shareholders	\$270,283	\$67,336	\$442,497	\$212,156
Basic earnings/(loss) per share (Note 9)	\$0.83	\$0.29	\$1.36	\$0.91
Diluted earnings/(loss) per share (Note 9)	\$0.83	\$0.28	\$1.35	\$0.90
Weighted average common shares (Note 9)	324,406	233,749	325,341	233,438
Diluted average common shares (Note 9)	327,252	236,340	328,645	236,372
Cash dividends declared per common share	\$0.12	\$0.09	\$0.36	\$0.27

Certain previously reported amounts have been revised to reflect the retroactive effect of the adoption of ASU 2017-07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." See Note 1 - Financial Information for additional information.

See accompanying notes to consolidated condensed financial statements.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands) (Unaudited)	First Horizon National Corporation			
	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Net income/(loss)	\$274,716	\$71,769	\$455,702	\$225,361
Other comprehensive income/(loss), net of tax:				
Net unrealized gains/(losses) on securities available-for-sale	(25,924)	3,917	(106,561)	11,292
Net unrealized gains/(losses) on cash flow hedges	(1,746)	(734)	(13,533)	(493)
Net unrealized gains/(losses) on pension and other postretirement plans	2,135	1,895	5,481	4,471
Other comprehensive income/(loss)	(25,535)	5,078	(114,613)	15,270
Comprehensive income	249,181	76,847	341,089	240,631
Comprehensive income attributable to noncontrolling interest	2,883	2,883	8,555	8,555
Comprehensive income attributable to controlling interest	\$246,298	\$73,964	\$332,534	\$232,076
Income tax expense/(benefit) of items included in Other comprehensive income:				
Net unrealized gains/(losses) on securities available-for-sale	\$(8,510)	\$2,430	\$(34,981)	\$7,002
Net unrealized gains/(losses) on cash flow hedges	(573)	(455)	(4,443)	(306)
Net unrealized gains/(losses) on pension and other postretirement plans	701	1,175	1,799	2,772
See accompanying notes to consolidated condensed financial statements.				

CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

(Dollars in thousands except per share data) (Unaudited)	First Horizon National Corporation 2018			2017		
	Controlling Interest	Noncontrolling Interest	Total	Controlling Interest	Noncontrolling Interest	Total
Balance, January 1	\$4,285,057	\$ 295,431	\$4,580,488	\$2,409,653	\$ 295,431	\$2,705,084
Adjustment to reflect adoption of ASU 2017-12	67	—	67	—	—	—
Beginning balance, as adjusted	\$4,285,124	\$ 295,431	\$4,580,555	\$2,409,653	\$ 295,431	\$2,705,084
Net income/(loss)	447,147	8,555	455,702	216,806	8,555	225,361
Other comprehensive income/(loss) (a)	(114,613)	—	(114,613)	15,270	—	15,270
Comprehensive income/(loss)	332,534	8,555	341,089	232,076	8,555	240,631
Cash dividends declared:						
Preferred stock (\$4,650 per share for the nine months ended September 30, 2018 and 2017)	(4,650)	—	(4,650)	(4,650)	—	(4,650)
Common stock (\$.36 and \$.27 per share for the nine months ended September 30, 2018 and 2017, respectively)	(118,250)	—	(118,250)	(63,777)	—	(63,777)
Common stock repurchased (b)	(23,997)	—	(23,997)	(5,285)	—	(5,285)
Common stock issued for:						
Stock options and restricted stock - equity awards	4,442	—	4,442	5,132	—	5,132
Acquisition equity adjustment (c)	(46,035)	—	(46,035)	—	—	—
Stock-based compensation expense	17,465	—	17,465	14,971	—	14,971
Dividends declared - noncontrolling interest of subsidiary preferred stock	—	(8,555)	(8,555)	—	(8,555)	(8,555)
Other	(133)	—	(133)	—	—	—
Balance, September 30	\$4,446,500	\$ 295,431	\$4,741,931	\$2,588,120	\$ 295,431	\$2,883,551

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) 2018 includes \$19.0 million repurchased under share repurchase programs.

(c) See Note 2- Acquisitions and Divestitures for additional information.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	First Horizon National Corporation	
	Nine months ended September	
	30	
(Dollars in thousands) (Unaudited)	2018	2017
Operating Activities		
Net income/(loss)	\$ 455,702	\$ 225,361
Adjustments to reconcile net income/(loss) to net cash provided/(used) by operating activities:		
Provision/(provision credit) for loan losses	1,000	(3,000)
Provision/(benefit) for deferred income taxes	106,314	(547)
Depreciation and amortization of premises and equipment	35,700	25,052
Amortization of intangible assets	19,394	5,160
Net other amortization and accretion	(9,991)	22,921
Net (increase)/decrease in derivatives	86,135	(14,670)
Fair value adjustment on interest-only strips	(840)	(107)
Repurchase and foreclosure provision/(provision credit)	—	(20,000)
(Gains)/losses and write-downs on OREO, net	814	44
Litigation and regulatory matters	(1,447)	7,409
Stock-based compensation expense	17,465	14,971
Gain on sale of held-to-maturity loans	3,777	—
Equity securities (gains)/losses, net	(212,924)	(5)
Debt securities (gains)/losses, net	(52)	(450)
(Gain)/loss on extinguishment of debt	1	14,329
Net (gains)/losses on sale/disposal of fixed assets	(2,469)	(13)
(Gain)/loss on BOLI	(2,785)	(3,500)
Loans held-for-sale:		
Purchases and originations	(1,729,549)	(1,252,300)
Gross proceeds from settlements and sales (a)	751,589	1,252,477
(Gain)/loss due to fair value adjustments and other	13,755	2,485
Net (increase)/decrease in:		
Trading securities	392,411	(433,897)
Fixed income receivables	(109,109)	(11,339)
Interest receivable	(14,052)	(7,171)
Other assets	(6,699)	(51,575)
Net increase/(decrease) in:		
Trading liabilities	101,179	17,180
Fixed income payables	(12,057)	(73,187)
Interest payable	16,610	8,869
Other liabilities	(30,717)	(35,770)
Total adjustments	(586,547)	(536,634)
Net cash provided/(used) by operating activities	(130,845)	(311,273)
Investing Activities		
Available-for-sale securities:		
Sales	15,137	3,360
Maturities	510,232	420,136
Purchases	(362,215)	(426,129)
Held-to-maturity securities:		

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Prepayments and maturities	—	4,740
Premises and equipment:		
Sales	22,794	2,577
Purchases	(32,928) (30,395
Proceeds from the sale of Visa Class B shares	240,206	—
Proceeds from sales of OREO	25,328	9,235
Proceeds from sales of loans classified as held-to-maturity	50,498	