FIRST HORIZON NATIONAL CORP
Form 10-Q
May 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from to

Commission File Number 001-15185

First Horizon National Corporation

(Exact name of registrant as specified in its charter)

TN	**62-0803242**
(State or other jurisdiction incorporation of 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 March 31, 2013**
Common Stock, $.625 par value	241,224,839

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FIRST HORIZON NATIONAL CORPORATION

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PART I.

FINANCIAL INFORMATION

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		
	March 31		December 31
(Dollars in thousands, except restricted and share amounts)(Unaudited)	**2013**	2012	2012
Assets:			
Cash and due from banks (Restricted $.2 million on March 31, 2013; $1.7 million on March 31, 2012; and $ on December 31, 2012)	**$ 275,262**	$ 349,604	$ 469,879
Federal funds sold	**33,738**	18,732	34,492
Securities purchased under agreements to resell (Note 15)	**732,696**	595,973	601,891
Total cash and cash equivalents (Restricted $.2 million on March 31, 2013; $1.7 million on March 31, 2012; and $ on December 31, 2012)	**1,041,696**	964,309	1,106,262
Interest-bearing cash	**431,182**	761,098	353,373
Trading securities	**1,397,746**	1,238,041	1,262,720
Loans held-for-sale	**390,874**	431,905	401,937
Securities available-for-sale (Note 2)	**3,190,219**	3,296,603	3,061,808
Loans, net of unearned income (Restricted $.1 billion on March 31, 2013 and December 31, 2012; and $.2 billion on March 31, 2012) (Note 3)	**15,889,670**	15,971,330	16,708,582
Less: Allowance for loan losses (Restricted $3.7 million on March 31, 2013; $10.4 million on March 31, 2012; and $4.3 million on December 31, 2012) (Note 3)	**265,218**	346,016	276,963
Total net loans (Restricted $.1 billion on March 31, 2013, March 31, 2012 and December 31, 2012)	**15,624,452**	15,625,314	16,431,619
Mortgage servicing rights (Note 4)	**109,102**	142,956	114,311
Goodwill (Note 5)	**134,242**	134,242	134,242
Other intangible assets, net (Note 5)	**21,772**	25,638	22,700
Capital markets receivables	**533,306**	522,001	303,893
Premises and equipment, net	**299,740**	314,903	303,273
Real estate acquired by foreclosure	**54,672**	78,947	60,690
Derivative assets (Note 14)	**274,332**	340,337	292,472
Other assets (Restricted $1.6 million on March 31, 2013; $4.5 million on March 31, 2012; and $1.9 million on December 31, 2012)	**1,663,092**	1,802,675	1,670,840
Total assets (Restricted $.1 billion on March 31, 2013 and December 31, 2012; and $.2 billion on March 31, 2012)	**$ 25,166,427**	$ 25,678,969	$ 25,520,140
Liabilities and equity:			
Deposits:			
Savings	**$ 6,498,832**	$ 6,615,289	$ 6,705,496
Time deposits	**988,375**	1,142,249	1,019,938
Other interest-bearing deposits	**3,740,257**	3,500,445	3,798,313
Certificates of deposit $100,000 and more	**522,958**	707,590	503,490
Interest-bearing	**11,750,422**	11,965,573	12,027,237
Noninterest-bearing	**4,454,045**	4,969,597	4,602,472
Total deposits	**16,204,467**	16,935,170	16,629,709
Federal funds purchased	**1,361,670**	1,487,469	1,351,023
Securities sold under agreements to repurchase (Note 15)	**488,010**	313,765	555,438
Trading liabilities	**781,306**	567,571	564,429

Other short-term borrowings	**186,898**	181,570	441,201
Term borrowings (Restricted $.1 billion on March 31, 2013 and December 31, 2012; and $.2 billion on March 31, 2012)	**2,197,864**	2,340,706	2,226,482
Capital markets payables	**461,333**	361,018	296,450
Derivative liabilities (Note 14)	**199,999**	234,188	202,269
Other liabilities	**685,153**	583,339	743,933
Total liabilities (Restricted $.1 billion on March 31, 2013 and December 31, 2012; and $.2 billion on March 31, 2012)	**22,566,700**	23,004,796	23,010,934
Equity:			
First Horizon National Corporation Shareholders Equity:			
Preferred stock Series A, non-cumulative perpetual, no par value, liquidation preference of $100,000 per share (shares authorized 1,000; shares issued 1,000 on March 31, 2013; and $ on March 31, 2012 and December 31, 2012)	**95,624**		
Common stock $.625 par value (shares authorized 400,000,000; shares issued 241,224,839 on March 31, 2013; 252,666,860 on March 31, 2012; and 243,597,780 on December 31, 2012)	**150,766**	157,917	152,249
Capital surplus	**1,461,292**	1,560,343	1,488,463
Undivided profits	**748,427**	785,361	719,672
Accumulated other comprehensive loss, net (Note 7)	**(151,639)**	(124,613)	(146,343)
Total First Horizon National Corporation Shareholders Equity	**2,304,470**	2,379,008	2,214,041
Noncontrolling interest	**295,257**	295,165	295,165
Total equity	**2,599,727**	2,674,173	2,509,206
Total liabilities and equity	**$ 25,166,427**	$ 25,678,969	$ 25,520,140

See accompanying notes to consolidated condensed financial statements.

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

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	First Horizon National Corporation	
	Three Months Ended March 31	
(Dollars and shares in thousands except per share data)(Unaudited)	**2013**	2012
Interest income:		
Interest and fees on loans	**$ 153,285**	$ 161,577
Interest on investment securities	**20,862**	26,306
Interest on loans held-for-sale	**3,502**	3,738
Interest on trading securities	**8,281**	9,436
Interest on other earning assets	**469**	446
Total interest income	**186,399**	201,503
Interest expense:		
Interest on deposits:		
Savings	**4,397**	5,619
Time deposits	**4,217**	5,916
Other interest-bearing deposits	**1,145**	1,518
Certificates of deposit $100,000 and more	**1,561**	2,306
Interest on trading liabilities	**3,196**	2,515
Interest on short-term borrowings	**1,306**	1,365
Interest on term borrowings	**9,195**	10,335
Total interest expense	**25,017**	29,574
Net interest income	**161,382**	171,929
Provision for loan losses	**15,000**	8,000
Net interest income after provision for loan losses	**146,382**	163,929
Noninterest income:		
Capital markets	**79,163**	106,743
Deposit transactions and cash management	**27,656**	28,741
Mortgage banking	**9,373**	23,341
Brokerage, management fees and commissions	**9,348**	8,496
Trust services and investment management	**6,328**	5,808
Insurance commissions	**600**	568
Equity securities gains/(losses), net	**24**	
Debt securities gains/(losses), net		328
Gain on divestiture		200
All other income and commissions (Note 6)	**23,935**	28,216
Total noninterest income	**156,427**	202,441
Adjusted gross income after provision for loan losses	**302,809**	366,370
Noninterest expense:		
Employee compensation, incentives, and benefits (quarter ended March 31, 2013 includes $2.5 million of expense associated with pension and post-retirement plans reclassified from accumulated other comprehensive income)	**139,184**	175,458
Occupancy	**12,822**	12,119

Legal and professional fees		**11,171**		6,067
Computer software		**10,076**		9,465
Contract employment and outsourcing		**9,039**		11,115
Operations services		**8,070**		9,127
Equipment rentals, depreciation, and maintenance		**7,820**		7,616
FDIC premium expense		**6,011**		6,336
Communications and courier		**4,437**		4,499
Foreclosed real estate		**1,439**		4,170
Miscellaneous loan costs		**996**		1,327
Amortization of intangible assets		**928**		973
Repurchase and foreclosure provision				49,256
All other expense (Note 6)		**28,547**		24,466
Total noninterest expense		**240,540**		321,994
Income/(loss) before income taxes		**62,269**		44,376
Provision/(benefit) for income taxes (quarter ended March 31, 2013 includes $1.0 million income tax benefit reclassified from accumulated other comprehensive income)		**17,730**		10,570
Income/(loss) from continuing operations		**44,539**		33,806
Income/(loss) from discontinued operations, net of tax (a)		**430**		(435)
Net income/(loss)	**$**	**44,969**	$	33,371
Net income attributable to noncontrolling interest		**2,813**		2,844
Net income/(loss) attributable to controlling interest	**$**	**42,156**	$	30,527
Preferred stock dividends		**1,188**		
Net income/(loss) available to common shareholders	**$**	**40,968**	$	30,527
Basic earnings/(loss) per share from continuing operations (Note 8)	**$**	**0.17**	$	0.12
Diluted earnings/(loss) per share from continuing operations (Note 8)	**$**	**0.17**	$	0.12
Basic earnings/(loss) per share (Note 8)	**$**	**0.17**	$	0.12
Diluted earnings/(loss) per share (Note 8)	**$**	**0.17**	$	0.12
Weighted average common shares (Note 8)		**240,870**		253,527
Diluted average common shares (Note 8)		**242,799**		255,369

See accompanying notes to consolidated condensed financial statements.

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

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	First Horizon National Corporation	
	Three Months Ended March 31	
(Dollars in thousands) (Unaudited)	**2013**	2012
Net income/(loss)	**$ 44,969**	$ 33,371
Other comprehensive income/(loss), net of tax:		
Unrealized fair value adjustments:		
Securities available-for-sale	**(6,659)**	7
Recognized pension and other employee benefit plans net periodic benefit costs	**1,363**	5,536
Other comprehensive income/(loss)	**(5,296)**	5,543
Comprehensive income/(loss)	**39,673**	38,914
Comprehensive income attributable to noncontrolling interest	**2,813**	2,844
Comprehensive income/(loss) attributable to controlling interest	**$ 36,860**	$ 36,070

See accompanying notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

	First Horizon National Corporation					
	2013			2012		
(Dollars in thousands except per share data)(Unaudited)	Controlling Interest	Noncontrolling Interest	Total	Controlling Interest	Noncontrolling Interest	Total
Balance, January 1	**$ 2,214,041**	**$ 295,165**	**$ 2,509,206**	$ 2,389,472	$ 295,165	$ 2,684,637
Net income/(loss)	**42,156**	**2,813**	**44,969**	30,527	2,844	33,371
Other comprehensive income/(loss) (a)	**(5,296)**		**(5,296)**	5,543		5,543
Comprehensive income/(loss)	**36,860**	**2,813**	**39,673**	36,070	2,844	38,914
Preferred stock issuance (1,000 shares issued at $100,000 per share net of offering costs)	**95,624**		**95,624**			
Cash dividends declared:						
Preferred stock ($1,188.33/share)	**(1,188)**		**(1,188)**			
Common stock ($.05/share and $.01/share for the quarters ended March 31, 2013 and 2012, respectively)	**(12,214)**		**(12,214)**	(2,530)		(2,530)
Common stock repurchased (b)	**(32,495)**		**(32,495)**	(46,624)		(46,624)
Common stock issued for:						
Stock options and restricted stock equity awards	**16**		**16**			
Stock-based compensation expense	**4,220**		**4,220**	3,858		3,858
Dividends declared noncontrolling interest of subsidiary preferred stock		**(2,813)**	**(2,813)**		(2,844)	(2,844)
Tax benefit reversals stock-based compensation plans	**(480)**		**(480)**	(1,238)		(1,238)
Real estate investment trust (REIT) preferred stock issuance		**92**	**92**			
Other changes in equity	**86**		**86**			
Balance, March 31	**$ 2,304,470**	**$ 295,257**	**$ 2,599,727**	$ 2,379,008	$ 295,165	$ 2,674,173

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) Quarters ended March 31, 2013 and 2012, include $30.0 million and $44.5 million, respectively, repurchased under the share repurchase program launched in fourth quarter 2011.

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Three Months Ended March 31 **2013**	2012
Operating Activities		
Net income/(loss)	**$ 44,969**	$ 33,371
Adjustments to reconcile net income/(loss) to net cash provided/(used) by operating activities:		
Provision for loan losses	**15,000**	8,000
Provision/(benefit) for deferred income taxes	**9,819**	8,431
Depreciation and amortization of premises and equipment	**8,802**	8,717
Amortization of intangible assets	**928**	973
Net other amortization and accretion	**9,822**	19,596
Net (increase)/decrease in derivatives	**(1,732)**	(3,374)
Market value adjustment on mortgage servicing rights	**(833)**	(4,471)
Repurchase and foreclosure provision		49,256
Fair value adjustment to foreclosed real estate	**1,018**	5,225
Litigation and regulatory matters	**5,170**	153
(Gains)/losses on divestitures	**(638)**	
Stock-based compensation expense	**4,220**	3,858
Tax benefit reversals stock-based compensation plans	**480**	1,238
Equity securities (gains)/losses, net	**(24)**	
Debt securities gains, net		(328)
Net (gain)/losses on sale/disposal of fixed assets	**387**	68
Net (increase)/decrease in:		
Trading securities	**(136,439)**	(251,488)
Loans held-for-sale	**11,063**	(18,008)
Capital markets receivables	**(229,413)**	(357,014)
Interest receivable	**(9,932)**	(7,844)
Other assets	**11,421**	(21,650)
Net increase/(decrease) in:		
Capital markets payables	**164,883**	196,310
Interest payable	**15,323**	15,711
Other liabilities	**(88,882)**	(69,302)
Trading liabilities	**216,877**	220,286
Total adjustments	**7,320**	(195,657)
Net cash provided/(used) by operating activities	**52,289**	(162,286)
Investing Activities		
Available-for-sale securities:		
Sales		39,097
Maturities	**300,178**	202,993
Purchases	**(442,309)**	(474,673)
Premises and equipment:		
Purchases	**(5,656)**	(2,435)
Net (increase)/decrease in:		
Loans	**795,824**	378,681
Interests retained from securitizations classified as trading securities	**1,413**	1,664
Interest-bearing cash	**(77,809)**	(308,242)
Cash receipts related to divestitures	**1,638**	
Net cash provided/(used) by investing activities	**573,279**	(162,915)

Financing Activities

Common stock:		
Stock options exercised	**16**	
Cash dividends paid	**(2,488)**	(2,575)
Repurchase of shares (a)	**(32,495)**	(46,624)
Tax benefit reversals stock-based compensation plans	**(480)**	(1,238)
Preferred stock issuance	**95,624**	
Cash dividends paid preferred stock noncontrolling interest	**(2,875)**	(2,844)
Term borrowings:		
Payments/maturities	**(14,306)**	(131,686)
Increase in restricted and secured term borrowings	**3,196**	859
Net increase/(decrease) in:		
Deposits	**(425,242)**	722,161
Short-term borrowings	**(311,084)**	(76,798)
Net cash provided/(used) by financing activities	**(690,134)**	461,255
Net increase/(decrease) in cash and cash equivalents	**(64,566)**	136,054
Cash and cash equivalents at beginning of period	**1,106,262**	828,255
Cash and cash equivalents at end of period	**$ 1,041,696**	$ 964,309
Supplemental Disclosures		
Total interest paid	**$ 9,285**	$ 13,708
Total taxes paid	**1,488**	27,927
Total taxes refunded	**2,377**	617
Transfer from loans to other real estate owned	**1,217**	10,207

See accompanying notes to consolidated condensed financial statements.

(a) Quarters ended March 31, 2013 and 2012, include $30.0 million and $44.5 million, respectively, repurchased under the share repurchase program launched in fourth quarter 2011.

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Notes to the Consolidated Condensed Financial Statements

Note 1 Financial Information

Basis of Accounting. The unaudited interim consolidated condensed financial statements of First Horizon National Corporation (FHN), including its subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States of America and follow general practices within the industries in which it operates. This preparation requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions are based on information available as of the date of the financial statements and could differ from actual results. In the opinion of management, all necessary adjustments have been made for a fair presentation of financial position and results of operations for the periods presented. These adjustments are of a normal recurring nature unless otherwise disclosed in the filing. The operating results for the interim 2013 period are not necessarily indicative of the results that may be expected going forward. For further information, refer to the audited consolidated financial statements in the 2012 Annual Report to shareholders.

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

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

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Note 2 Investment Securities

The following tables summarize FHN s available for sale (AFS) securities on March 31, 2013 and 2012:

(Dollars in thousands)	March 31, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. treasuries	$ 39,992	$ 2	$	$ 39,994
Government agency issued mortgage-backed securities (MBS)	1,009,283	56,649	(381)	1,065,551
Government agency issued collateralized mortgage obligations (CMO)	1,826,314	24,049	(1,010)	1,849,353
Other U.S. government agencies	3,068	208		3,276
States and municipalities	15,255			15,255
Equity and other (a)	216,780	10		216,790
Total securities available for sale (b)	**$ 3,110,692**	**$ 80,918**	**$ (1,391)**	**$ 3,190,219**

(a) Includes restricted investments in FHLB-Cincinnati stock of $125.5 million and FRB stock of $66.0 million. The remainder is money market, venture capital, and cost method investments.
(b) Includes $2.9 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.

(Dollars in thousands)	March 31, 2012 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. treasuries	$ 40,011	$ 26	$	$ 40,037
Government agency issued MBS	1,352,827	74,936	(734)	1,427,029
Government agency issued CMO	1,537,732	35,104		1,572,836
Other U.S. government agencies	14,121	426		14,547
States and municipalities	18,070			18,070
Equity and other (a)	224,061	23		224,084
Total securities available for sale (b)	$ 3,186,822	$ 110,515	$ (734)	$ 3,296,603

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

(a) Includes restricted investments in FHLB-Cincinnati stock of $125.5 million and FRB stock of $66.1 million. The remainder is money market, venture capital, and cost method investments.
(b) Includes $2.8 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.

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

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Note 2 Investment Securities (Continued)

The amortized cost and fair value by contractual maturity for the available for sale securities portfolio on March 31, 2013 are provided below:

	Available for Sale	
(Dollars in thousands)	Amortized Cost	Fair Value
Within 1 year	$ 39,992	$ 39,994
After 1 year; within 5 years	4,568	4,776
After 5 years; within 10 years		
After 10 years	13,755	13,755
Subtotal	58,315	58,525
Government agency issued MBS and CMO	2,835,597	2,914,904
Equity and other	216,780	216,790
Total	**$ 3,110,692**	**$ 3,190,219**

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.

The table below provides information on gross gains and gross losses from investment securities for the three months ended March 31:

	Available for sale	
(Dollars in thousands)	**2013**	2012
Gross gains on sales of securities	**$ 30**	$ 328
Gross losses on sales of securities	**(6)**	
Net gain/(loss) on sales of securities (a)	**$ 24**	$ 328
Net other than temporary impairment (OTTI) recorded		
Total securities gain/(loss), net	**$ 24**	$ 328

(a) Proceeds from sales for the three months ended March 31, 2012 were $39.1 million. Proceeds for the three months ended March 31, 2013 were not material.

The following table provides information on investments within the available for sale portfolio that had unrealized losses on March 31, 2013 and 2012:

	On March 31, 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	$ 305,318	$ (1,010)	$	$	$ 305,318	$ (1,010)
Government agency issued MBS	44,095	(381)			44,095	(381)

Total temporarily impaired securities	**$ 349,413**	**$ (1,391)**	**$**	**$**	**$ 349,413**	**$ (1,391)**

	On March 31, 2012					
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government agency issued MBS	$ 101,397	$ (734)	$	$	$ 101,397	$ (734)
Total temporarily impaired securities	$ 101,397	$ (734)	$	$	$ 101,397	$ (734)

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

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Note 3 Loans

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

	March 31		December 31
(Dollars in thousands)	**2013**	2012	2012
Commercial:			
Commercial, financial, and industrial	**$ 8,091,186**	$ 7,705,153	$ 8,796,956
Commercial real estate			
Income CRE	**1,062,588**	1,247,089	1,109,930
Residential CRE	**53,291**	99,837	58,305
Retail:			
Consumer real estate (a)	**5,590,180**	5,858,821	5,688,703
Permanent mortgage (b)	**793,282**	788,700	765,583
Credit card & other	**299,143**	271,730	289,105
Loans, net of unearned income	**$ 15,889,670**	$ 15,971,330	$ 16,708,582
Allowance for loan losses	**265,218**	346,016	276,963
Total net loans	**$ 15,624,452**	$ 15,625,314	$ 16,431,619

(a) Balances as of March 31, 2013 and 2012, and December 31, 2012 include $386.4 million, $467.0 million, and $402.4 million of restricted and secured real estate loans, respectively. See Note 13 Variable Interest Entities for additional information.

(b) Balances as of March 31, 2013 and 2012, and December 31, 2012 include $13.0 million, $38.0 million and $13.2 million of restricted and secured real estate loans, respectively. See Note 13 Variable Interest Entities for additional information.

Components of the Loan Portfolio

For purposes of this disclosure, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which 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), risk characteristics of the loan, and an entity 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, and the trust preferred loans (TRUPs)(i.e., loans to bank and insurance-related businesses) portfolio. 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 and residential CRE. Retail loan portfolio segments include consumer real estate, permanent mortgage, and the credit card and other portfolio. Retail classes include HELOC and real estate (R/E) installment 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 loans secured by residential real estate (41 percent of total loans), the majority of which is in the consumer real estate portfolio (35 percent of total loans). FHN had loans to mortgage companies totaling $1.1 billion (14 percent of the C&I portfolio, or 7 percent of total loans) as of March 31, 2013. Additionally, FHN had a sizeable portfolio of bank-related loans (including TRUPs) totaling $0.5 billion (6 percent of the C&I portfolio, or 3 percent of total loans).

Regulatory Focus on Consumer Loan Accounting and Reporting

In first quarter 2012, the Office of the Comptroller of Currency (OCC) issued interagency guidance related to ALLL estimation and nonaccrual practices, and risk management policies for junior lien loans. As a result, FHN modified its nonaccrual policies to place current second liens on nonaccrual if the first lien is owned or serviced by FHN and that first lien is 90 or more days past due. Additionally, FHN enhanced its ALLL methodology to qualitatively estimate probable incurred losses for all current second liens that are behind first liens with performance issues for which FHN does not own or service the first lien. During 2012 and continuing into 2013, FHN has been and is evaluating data on first liens provided by third parties, including vendors, to determine if it may be reasonably relied upon in order to predict performance of the associated second liens for which FHN does not own or service the first lien. FHN is working to have a vendor selected in the first half of 2013. Therefore, methodologies, policies, and practices related to the ALLL and/or nonaccrual accounting and reporting may be revised in the future to incorporate usage of such data if deemed predictive of loan performance. It is possible that if FHN determines that third party data may reasonably be relied upon, future additions to NPLs may be material.

Additionally, in third quarter 2012, the OCC clarified that residential real estate loans in which personal liability has been discharged through bankruptcy and not reaffirmed by the borrower are collateral dependent and should be reported as nonaccruing troubled debt restructuring (TDR). As a result, FHN charged-down such loans to the net realizable value of the collateral and the remaining

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Note 3 Loans (Continued)

balances were reported as nonaccruing TDRs regardless of the loan s delinquency status. The level of nonperforming loans and TDRs in the consumer real estate and permanent mortgage portfolios were affected by these regulatory actions as of March 31, 2013 relative to March 31, 2012.

Because of the composition of FHN s residential real estate portfolios, this change most significantly impacted the consumer real estate portfolio segment.

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, weak housing market, elevated unemployment levels, regulatory guidance, and both positive and negative portfolio segment-specific trends, are examples of additional factors considered by management in determining the ALLL. The ALLL also includes reserves determined in accordance with ASC 310-10-35 for loans determined by management to be individually impaired.

Commercial

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

Retail

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

Individually Impaired

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

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

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Note 3 Loans (Continued)

The following table provides a rollforward of the allowance for loan losses by portfolio segment for the three months ended March 31, 2013 and 2012:

(Dollars in thousands)	**C&I**	**Commercial Real Estate**	**Consumer Real Estate**	**Permanent Mortgage**	**Credit Card and Other**	**Total**
Balance as of January 1, 2012	$ 130,413	$ 55,586	$ 165,077	$ 26,194	$ 7,081	$ 384,351
Charge-offs	(6,074)	(9,619)	(34,133)	(4,638)	(2,619)	(57,083)
Recoveries	4,514	496	4,139	523	1,076	10,748
Provision	(9,275)	(414)	6,564	10,493	632	8,000
Balance as of March 31, 2012	119,578	46,049	141,647	32,572	6,170	346,016
Allowance individually evaluated for impairment	29,147	7,976	32,300	16,722	241	86,386
Allowance collectively evaluated for impairment	90,431	38,073	109,347	15,850	5,929	259,630
Loans, net of unearned as of March 31, 2012:						
Individually evaluated for impairment	151,219	110,123	117,556	102,033	1,028	481,959
Collectively evaluated for impairment	7,553,934	1,236,803	5,741,265	686,667	270,702	15,489,371
Total loans, net of unearned	$ 7,705,153	$ 1,346,926	$ 5,858,821	$ 788,700	$ 271,730	$ 15,971,330
Balance as of January 1, 2013	**$ 96,191**	**$ 19,997**	**$ 128,949**	**$ 24,928**	**$ 6,898**	**$ 276,963**
Charge-offs	**(4,436)**	**(1,381)**	**(23,996)**	**(3,387)**	**(2,900)**	**(36,100)**
Recoveries	**2,496**	**646**	**5,504**	**144**	**565**	**9,355**
Provision	**(8,146)**	**(4,124)**	**20,960**	**3,763**	**2,547**	**15,000**
Balance as of March 31, 2013	**86,105**	**15,138**	**131,417**	**25,448**	**7,110**	**265,218**
Allowance individually evaluated for impairment	**15,463**	**156**	**40,778**	**22,239**	**231**	**78,867**
Allowance collectively evaluated for impairment	**70,642**	**14,982**	**90,639**	**3,209**	**6,879**	**186,351**
Loans, net of unearned as of March 31, 2013:						
Individually evaluated for impairment	**111,036**	**43,501**	**165,927**	**136,430**	**747**	**457,641**
Collectively evaluated for impairment	**7,980,150**	**1,072,378**	**5,424,253**	**656,852**	**298,396**	**15,432,029**
Total loans, net of unearned	**$ 8,091,186**	**$ 1,115,879**	**$ 5,590,180**	**$ 793,282**	**$ 299,143**	**$ 15,889,670**

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Note 3 Loans (Continued)

Impaired Loans

The following tables provide information at March 31, 2013 and 2012, by class related to individually impaired loans and consumer TDR s. Recorded investment is defined as the amount of the investment in a loan, before valuation allowance but which does reflect any direct write-down of the investment. For purposes of this disclosure, LOCOM has been excluded.

	March 31, 2013				
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:					
Commercial:					
General C&I	$ 60,849	$ 73,873	$	$ 60,581	$ 80
TRUPs	10,000	10,000		17,000	
Income CRE	28,136	40,034		30,968	75
Residential CRE	14,294	21,507		14,467	63
Total	$ 113,279	$ 145,414	$	$ 123,016	$ 218
Retail:					
HELOC (a)	$ 21,058	$ 38,055	$	$ 20,698	$
R/E installment loans (a)	13,329	15,207		11,825	
Permanent mortgage (a)	14,634	14,634		13,125	
Total	$ 49,021	$ 67,896	$	$ 45,648	$
Impaired loans with related allowance recorded:					
Commercial:					
General C&I	$ 3,754	$ 3,754	$ 1,159	$ 7,027	$
TRUPs	40,200	40,200	14,304	36,950	
Income CRE	1,071	1,071	156	1,075	11
Total	$ 45,025	$ 45,025	$ 15,619	$ 45,052	$ 11
Retail:					
HELOC	$ 63,066	$ 63,066	$ 16,559	$ 61,358	$ 426
R/E installment loans	68,474	68,474	24,219	69,082	285
Permanent mortgage	121,796	121,796	22,239	122,744	683
Credit card & other	747	747	231	782	8
Total	$ 254,083	$ 254,083	$ 63,248	$ 253,966	$ 1,402
Total commercial	$ 158,304	$ 190,439	$ 15,619	$ 168,068	$ 229
Total retail	$ 303,104	$ 321,979	$ 63,248	$ 299,614	$ 1,402
Total impaired loans	$ 461,408	$ 512,418	$ 78,867	$ 467,682	$ 1,631

(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 3 Loans (Continued)

	March 31, 2012				
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:					
Commercial:					
General C&I	$ 63,595	$ 80,563	$	$ 69,288	$ 203
TRUPs	47,000	47,000		47,000	
Income CRE	64,190	111,789		65,921	77
Residential CRE	24,210	41,518		24,250	72
Total	$ 198,995	$ 280,870	$	$ 206,459	$ 352
Impaired loans with related allowance recorded:					
Commercial:					
General C&I	$ 12,831	$ 12,993	$ 5,322	$ 13,637	$ 34
TRUPs	33,700	33,700	23,825	33,700	
Income CRE	2,208	2,208	446	2,215	15
Residential CRE	19,515	19,515	7,530	20,334	
Total	$ 68,254	$ 68,416	$ 37,123	$ 69,886	$ 49
Retail:					
HELOC	$ 52,411	$ 52,411	$ 14,165	$ 51,165	$ 373
R/E installment loans	65,145	65,145	18,135	63,728	265
Permanent mortgage	102,033	102,033	16,722	91,496	656
Credit card & other	1,028	1,028	241	1,073	11
Total	$ 220,617	$ 220,617	$ 49,263	$ 207,462	$ 1,305
Total commercial	$ 267,249	$ 349,286	$ 37,123	$ 276,345	$ 401
Total retail	$ 220,617	$ 220,617	$ 49,263	$ 207,462	$ 1,305
Total impaired loans	$ 487,866	$ 569,903	$ 86,386	$ 483,807	$ 1,706

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

Asset Quality Indicators

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

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Note 3 Loans (Continued)

The following tables provide the balances of commercial loan portfolio classes with associated allowance, disaggregated by PD grade as of March 31, 2013 and 2012:

	March 31, 2013							
(Dollars in thousands)	**General C&I**	**Loans to Mortgage Companies**	**TRUPS (a)**	**Income CRE**	**Residential CRE**	**Total**	**Percentage of Total**	**Allowance for Loan Losses**
PD Grade:								
1	**$ 169,342**	**$**	**$**	**$**	**$**	**$ 169,342**	**2%**	**$ 51**
2	**172,481**			**2,513**		**174,994**	**2**	**82**
3	**164,654**			**6,241**		**170,895**	**2**	**101**
4	**309,242**			**6,188**	**216**	**315,646**	**3**	**421**
5	**672,509**			**34,672**	**275**	**707,456**	**8**	**1,284**
6	**939,686**	**121,538**		**148,174**	**7,308**	**1,216,706**	**13**	**3,206**
7	**1,012,012**	**329,484**		**177,656**	**1,877**	**1,521,029**	**17**	**3,397**
8	**1,015,430**	**411,119**		**237,433**	**257**	**1,664,239**	**18**	**5,314**
9	**641,720**	**227,410**		**123,351**	**765**	**993,246**	**11**	**8,851**
10	**461,381**	**40,177**		**106,948**	**1,053**	**609,559**	**7**	**7,805**
11	**440,142**			**54,810**	**1,801**	**496,753**	**5**	**9,837**
12	**168,677**			**22,233**	**188**	**191,098**	**2**	**2,808**
13	**114,717**		**337,725**	**36,729**	**10,585**	**499,756**	**5**	**8,371**
14,15,16	**227,018**	**351**	**3,335**	**76,433**	**14,672**	**321,809**	**3**	**34,096**
Collectively evaluated for impairment	**6,509,011**	**1,130,079**	**341,060**	**1,033,381**	**38,997**	**9,052,528**	**98**	**85,624**
Individually evaluated for impairment	**64,603**		**46,433**	**29,207**	**14,294**	**154,537**	**2**	**15,619**
Total commercial loans	**$ 6,573,614**	**$ 1,130,079**	**$ 387,493**	**$ 1,062,588**	**$ 53,291**	**$ 9,207,065**	**100%**	**$ 101,243**

	March 31, 2012							
(Dollars in thousands)	General C&I	Loans to Mortgage Companies	TRUPS (a)	Income CRE	Residential CRE	Total	Percent of Total	Allowance for Loan Losses
PD Grade:								
1	$ 185,999	$	$	$	$	$ 185,999	2%	$ 59
2	190,005			2,594		192,599	2	75
3	163,589			21,307		184,896	2	104
4	218,712			6,428	93	225,233	2	225
5	388,541			30,600	297	419,438	5	915
6	895,483	123,307		96,550	4,380	1,119,720	12	3,867
7	852,631	434,345		214,099	5,812	1,506,887	17	8,592
8	952,757	366,556		151,064	422	1,470,799	16	12,760
9	619,101	127,639		158,179	2,656	907,575	10	12,032
10	504,433	18,734		94,077	1,878	619,122	7	9,194
11	479,398			124,662	1,473	605,533	7	12,424
12	163,692			16,013	3,353	183,058	2	3,513
13	206,166		334,099	67,431	7,383	615,079	7	12,344

14,15,16	324,666		4,081	197,688	28,364	554,799	6	52,400
Collectively evaluated for impairment	6,145,173	1,070,581	338,180	1,180,692	56,111	8,790,737	97	128,504
Individually evaluated for impairment	76,426		74,793	66,397	43,726	261,342	3	37,123
Total commercial loans	$ 6,221,599	$ 1,070,581	$ 412,973	$ 1,247,089	$ 99,837	$ 9,052,079	100%	$ 165,627

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

(a) Balances as of March 31, 2013 and 2012, presented net of $30.9 million and $34.2 million, respectively, in lower of cost or market (LOCOM) valuation allowance. Based on the underlying structure of the notes, the highest possible internal grade is 13 .

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 3 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 March 31, 2013 and 2012:

HELOC *(Dollars in thousands)*	**March 31, 2013**			March 31, 2012		
Origination Vintage	**Period End Balance**	**Average Origination FICO**	**Average Refreshed FICO**	Period End Balance	Average Origination FICO	Average Refreshed FICO
pre-2003	**$ 108,054**	**714**	**705**	$ 167,660	722	715
2003	**208,233**	**732**	**723**	259,437	733	724
2004	**469,608**	**727**	**717**	565,929	728	718
2005	**592,322**	**734**	**719**	704,568	734	720
2006	**437,889**	**740**	**725**	523,464	741	724
2007	**460,916**	**745**	**728**	542,266	746	731
2008	**250,427**	**754**	**747**	286,454	755	749
2009	**134,294**	**752**	**745**	170,186	754	751
2010	**133,917**	**753**	**749**	167,914	755	755
2011	**129,303**	**759**	**756**	159,368	760	757
2012	**155,758**	**760**	**758**	35,208	762	758
2013	**27,853**	**756**	**754**			
Total	**$ 3,108,574**	**740**	**729**	$ 3,582,454	740	729

R/E Installment Loans *(Dollars in thousands)*	**March 31, 2013**			March 31, 2012		
Origination Vintage	**Period End Balance**	**Average Origination FICO**	**Average Refreshed FICO**	Period End Balance	Average Origination FICO	Average Refreshed FICO
pre-2003	**$ 33,454**	**685**	**682**	$ 51,213	689	685
2003	**101,107**	**719**	**727**	147,224	722	730
2004	**66,809**	**703**	**701**	90,717	709	707
2005	**197,153**	**717**	**711**	254,045	720	713
2006	**209,755**	**718**	**703**	277,821	720	704
2007	**299,659**	**726**	**711**	389,145	729	712
2008	**104,651**	**725**	**716**	143,844	733	724
2009	**53,302**	**746**	**744**	84,485	750	748
2010	**146,048**	**746**	**750**	187,301	746	756
2011	**390,546**	**760**	**761**	462,341	761	758
2012	**741,406**	**764**	**762**	188,231	765	767
2013	**137,716**	**761**	**759**			
Total	**$ 2,481,606**	**744**	**739**	$ 2,276,367	737	729

Permanent Mortgage *(Dollars in thousands)*	**March 31, 2013**			March 31, 2012		
Origination Vintage	**Period End Balance**	**Average Origination FICO**	**Average Refreshed FICO**	Period End Balance	Average Origination FICO	Average Refreshed FICO
pre-2004 (a)	**$ 249,523**	**726**	**727**	$ 146,858	724	732

2004	**28,662**	**714**	**691**	49,152	719	688
2005	**47,382**	**739**	**713**	58,748	740	715
2006	**89,179**	**732**	**712**	104,922	735	708
2007	**260,136**	**734**	**711**	288,517	734	704
2008	**118,400**	**742**	**712**	140,503	742	713
Total	**$ 793,282**	**731**	**711**	$ 788,700	734	711

(a) Increase in 2013 balance within the pre-2004 vintages reflect the impact of clean-up calls exercised by FHN during first quarter 2013 and third quarter 2012.

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Note 3 Loans (Continued)

The following table reflects accruing delinquency amounts for the credit card and other portfolio classes as of March 31:

(Dollars in thousands)	Credit Card 2013	Credit Card 2012	Other 2013	Other 2012
Accruing delinquent balances:				
30-89 days past due	**$ 1,430**	$ 1,368	**$ 723**	$ 533
90+ days past due	**1,483**	1,456	**90**	65
Total	**$ 2,913**	$ 2,824	**$ 813**	$ 598

Nonaccrual and Past Due Loans

For all portfolio segments and classes, loans are place on nonaccrual status if it becomes evident that full collection of principal and interest is at risk, impairment has been recognized as a partial charge-off of principal balance, or on a case-by-case basis if FHN continues to receive payments, but there are atypical loan structures or other borrower-specific issues. FHN does have a meaningful portion of loans that are classified as nonaccrual but where loan payments are received including residential real estate loans where the borrower has been discharged of personal obligation through bankruptcy and current second liens behind FHN-serviced first liens 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. Generally, current second liens are placed on nonaccrual status if they are behind first liens that FHN owns or services if the first lien is 90 days or more delinquent.

The following table reflects accruing and non-accruing loans by class on March 31, 2013:

	Accruing				Non-Accruing				
(Dollars in thousands)	**Current**	**30-89 Days Past Due**	**90 + Days Past Due**	**Total Accruing**	**Current**	**30-89 Days Past Due**	**90 + Days Past Due**	**Total Non-Accruing**	**Total Loans**
Commercial (C&I):									
General C&I	$ 6,493,628	$ 13,177	$ 428	**$ 6,507,233**	$ 22,439	$ 9,694	$ 34,248	**$ 66,381**	**$ 6,573,614**
Loans to mortgage companies	1,129,728			**1,129,728**			351	**351**	**1,130,079**
TRUPs (a)	341,060			**341,060**			46,433	**46,433**	**387,493**
Total commercial C&I	7,964,416	13,177	428	**7,978,021**	22,439	9,694	81,032	**113,165**	**8,091,186**
Commercial real estate:									
Income CRE	1,031,037	4,679		**1,035,716**	5,643	1,705	19,524	**26,872**	**1,062,588**
Residential CRE	41,576			**41,576**	1,383		10,332	**11,715**	**53,291**
Total commercial real estate	1,072,613	4,679		**1,077,292**	7,026	1,705	29,856	**38,587**	**1,115,879**
Consumer real estate:									
HELOC	3,022,483	28,914	18,135	**3,069,532**	28,072	1,390	9,580	**39,042**	**3,108,574**

R/E installment loans	2,432,315	11,977	8,456	**2,452,748**	19,692	2,685	6,481	**28,858**	**2,481,606**
Total consumer real estate	5,454,798	40,891	26,591	**5,522,280**	47,764	4,075	16,061	**67,900**	**5,590,180**
Permanent mortgage	741,500	6,025	11,126	**758,651**	12,866	1,266	20,499	**34,631**	**793,282**
Credit card & other									
Credit card	178,310	1,430	1,483	**181,223**					**181,223**
Other	115,390	723	90	**116,203**	1,717			**1,717**	**117,920**
Total credit card & other	293,700	2,153	1,573	**297,426**	1,717			**1,717**	**299,143**
Total loans, net of unearned	$ 15,527,027	$ 66,925	$ 39,718	**$ 15,633,670**	$ 91,812	$ 16,740	$ 147,448	**$ 256,000**	**$ 15,889,670**

(a) Total TRUPs includes LOCOM valuation allowance of $30.9 million.

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Note 3 Loans (Continued)

The following table reflects accruing and non-accruing loans by class on March 31, 2012:

	Accruing				Non-Accruing				
(Dollars in thousands)	**Current**	**30-89 Days Past Due**	**90 + Days Past Due**	**Total Accruing**	**Current**	**30-89 Days Past Due**	**90 + Days Past Due**	**Total Non-Accruing**	**Total Loans**
Commercial (C&I):									
General C&I	$ 6,112,259	$ 29,520	$ 540	**$ 6,142,319**	$ 35,470	$ 13,202	$ 30,608	**$ 79,280**	**$ 6,221,599**
Loans to mortgage companies	1,070,581			**1,070,581**					**1,070,581**
TRUPs (a)	338,180			**338,180**			74,793	**74,793**	**412,973**
Total commercial C&I	7,521,020	29,520	540	**7,551,080**	35,470	13,202	105,401	**154,073**	**7,705,153**
Commercial real estate:									
Income CRE	1,168,182	9,160		**1,177,342**	23,289	2,701	43,757	**69,747**	**1,247,089**
Residential CRE	55,081	1,057		**56,138**	22,958	2,713	18,028	**43,699**	**99,837**
Total commercial real estate	1,223,263	10,217		**1,233,480**	46,247	5,414	61,785	**113,446**	**1,346,926**
Consumer real estate:									
HELOC	3,496,858	37,832	20,749	**3,555,439**	12,713	2,937	11,365	**27,015**	**3,582,454**
R/E installment loans	2,227,639	21,114	9,628	**2,258,381**	10,185	1,472	6,329	**17,986**	**2,276,367**
Total consumer real estate	5,724,497	58,946	30,377	**5,813,820**	22,898	4,409	17,694	**45,001**	**5,858,821**
Permanent mortgage	734,659	8,454	8,900	**752,013**	14,566	1,101	21,020	**36,687**	**788,700**
Credit card & other									
Credit card	179,744	1,368	1,456	**182,568**					**182,568**
Other	86,425	533	65	**87,023**	4		2,135	**2,139**	**89,162**
Total credit card & other	266,169	1,901	1,521	**269,591**	4		2,135	**2,139**	**271,730**
Total loans, net of unearned	$ 15,469,608	$ 109,038	$ 41,338	**$ 15,619,984**	$ 119,185	$ 24,126	$ 208,035	**$ 351,346**	**$ 15,971,330**

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

Troubled Debt Restructurings

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

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

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

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Note 3 Loans (Continued)

In 2012, the OCC clarified that the discharge of personal liability through bankruptcy proceedings should be considered a concession. As a result, FHN classified all non-reaffirmed residential real estate loans after bankruptcy as nonaccruing TDRs in third quarter 2012.

On March 31, 2013 and 2012, FHN had $368.8 million and $303.3 million portfolio loans classified as TDRs, respectively. For TDRs in the loan portfolio, FHN had loan loss reserves of $64.6 million and $49.9 million, or 18 percent and 16 percent of TDR balances, as of March 31, 2013 and 2012, respectively. Additionally, FHN had restructured $182.1 million and $126.3 million of loans-held-for-sale as of March 31, 2013 and 2012, respectively. Loans held for sale are presented at UPB before fair value adjustments and do not carry reserves.

The following tables reflect portfolio loans that were classified as TDRs during the three months ended March 31, 2013 and 2012:

	2013			2012		
(Dollars in thousands)	Number	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial (C&I):						
General C&I	**5**	**$ 1,242**	**$ 1,238**	4	$ 583	$ 576
Total commercial (C&I)	**5**	**1,242**	**1,238**	4	583	576
Commercial real estate:						
Income CRE				3	7,961	7,829
Residential CRE				1	50	50
Total commercial real estate				4	8,011	7,879
Consumer real estate:						
HELOC	**115**	**7,759**	**7,551**	34	4,081	4,073
R/E installment loans	**179**	**6,285**	**6,233**	59	7,543	7,611
Total consumer real estate	**294**	**14,044**	**13,784**	93	11,624	11,684
Permanent mortgage	**12**	**4,737**	**4,852**	38	29,893	30,064
Credit card & other	**11**	**62**	**59**	22	91	87
Total troubled debt restructurings	**322**	**$ 20,085**	**$ 19,933**	161	$ 50,202	$ 50,290

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Note 3 Loans (Continued)

The following table presents TDRs which re-defaulted during the three months ended March 31, 2013 and 2012, and as to which the modification occurred 12 months or less prior to the re-default. Financing receivables that became classified as TDRs within the previous 12 months and for which there was a payment default during the period are calculated by first identifying TDRs that 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 plus days past due.

	March 31, 2013		March 31 , 2012	
(Dollars in thousands)	Number	Recorded Investment	Number	Recorded Investment
Commercial (C&I):				
General C&I	**7**	**$ 6,052**	7	$ 3,990
Total commercial (C&I)	**7**	**6,052**	7	3,990
Commercial real estate:				
Income CRE	**3**	**1,397**	5	2,358
Residential CRE	**1**	**33**	1	50
Total commercial real estate	**4**	**1,430**	6	2,408
Consumer real estate:				
HELOC	**7**	**344**	10	1,210
R/E installment loans	**4**	**129**	18	1,706
Total consumer real estate	**11**	**473**	28	2,916
Permanent mortgage	**9**	**4,398**		
Credit card & other	**2**	**5**	11	36
Total troubled debt restructurings	**33**	**$ 12,358**	52	$ 9,350

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 4 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 16 Fair Value of Assets & Liabilities, the Determination of Fair Value section for a discussion of FHN s MSR valuation methodology and Note 14 Derivatives for a discussion of how FHN hedges the fair value of MSR. The balance of MSR included on the Consolidated Condensed Statements of Condition represents the rights to service approximately $17 billion and $22 billion of mortgage loans on March 31, 2013 and 2012, respectively, for which a servicing right has been capitalized.

Following is a summary of changes in capitalized MSR as of March 31, 2013 and 2012:

(Dollars in thousands)	First Liens	Second Liens	HELOC	Total
Fair value on January 1, 2012	$ 140,724	$ 231	$ 3,114	$ 144,069
Reductions due to loan payments	(5,499)	(9)	(76)	(5,584)
Changes in fair value due to:				
Changes in valuation model inputs or assumptions	4,459			4,459
Other changes in fair value	(8)		20	12
Fair value on March 31, 2012	$ 139,676	$ 222	$ 3,058	$ 142,956
Fair value on January 1, 2013	**$ 111,314**	**196**	**2,801**	**114,311**
Reductions due to loan payments	**(5,374)**	**(48)**	**(125)**	**(5,547)**
Reductions due to exercise of cleanup calls	**(495)**			**(495)**
Changes in fair value due to:				
Changes in valuation model inputs or assumptions	**834**			**834**
Other changes in fair value	**(88)**	**45**	**42**	**(1)**
Fair value on March 31, 2013	**$ 106,191**	**$ 193**	**$ 2,718**	**$ 109,102**

Servicing, late, and other ancillary fees recognized within mortgage banking income were $12.1 million and $17.2 million for the three months ended March 31, 2013 and 2012, respectively. FHN services a portfolio of mortgage loans related to transfers by other parties utilizing securitization trusts. The servicing assets represent FHN s sole interest in these transactions. The total MSR recognized by FHN related to these transactions was $1.4 million and $2.3 million at March 31, 2013 and 2012, respectively. The aggregate principal balance serviced by FHN for these transactions was $.2 billion at March 31, 2013 and $.4 billion at March 31, 2012. FHN has no obligation to provide financial support and has not provided any form of support to the related trusts. The MSR recognized by FHN has been included in the first lien mortgage loans column within the rollforward of MSR.

In prior periods, FHN transferred MSR to third parties in transactions that did not qualify for sales treatment due to certain recourse provisions that were included within the sale agreements. On March 31, 2013 and 2012, FHN had $11.0 million and $15.1 million, respectively, of MSR related to these transactions. These MSR are included within the first liens mortgage loans column within the rollforward of MSR. The proceeds from these transfers have been recognized within Other short-term borrowings in the Consolidated Condensed Statements of Condition.

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Note 5 Intangible Assets

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

(Dollars in thousands)	Goodwill	Other Intangible Assets (a)
December 31, 2011	$ 133,659	$ 26,243
Amortization expense		(973)
Additions	583	368
March 31, 2012	$ 134,242	$ 25,638
December 31, 2012	134,242	22,700
Amortization expense		(928)
March 31, 2013	**$ 134,242**	**$ 21,772**

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

The gross carrying amount of other intangible assets subject to amortization is $57.9 million on March 31, 2013, net of $36.1 million of accumulated amortization. Estimated aggregate amortization expense is expected to be $2.8 million for the remainder of 2013, and $3.5 million, $3.4 million, $3.2 million, $3.0 million, and $2.9 million for the twelve-month periods of 2014, 2015, 2016, 2017, and 2018, respectively.

The following is a summary of gross goodwill and accumulated impairment losses and write-offs detailed by reportable segments included in the Consolidated Condensed Statements of Condition through March 31, 2013. Gross goodwill, accumulated impairments, and accumulated divestiture related write-offs were determined beginning on January 1, 2002, when a change in accounting requirements resulted in goodwill being assessed for impairment rather than being amortized.

(Dollars in thousands)	Non-Strategic	Regional Banking	Capital Markets	Total
Gross goodwill	$ 199,995	$ 36,238	$ 97,421	$ 333,654
Accumulated impairments	(114,123)			(114,123)
Accumulated divestiture related write-offs	(85,872)			(85,872)
December 31, 2011	$	$ 36,238	$ 97,421	$ 133,659
Additions			583	583
Impairments				
Divestitures				
Net change in goodwill during 2012			583	583
Gross goodwill	$ 199,995	$ 36,238	$ 98,004	$ 334,237
Accumulated impairments	(114,123)			(114,123)
Accumulated divestiture related write-offs	(85,872)			(85,872)
March 31, 2012	$	$ 36,238	$ 98,004	$ 134,242

Gross goodwill	$ 199,995	$ 36,238	$ 98,004	$ 334,237
Accumulated impairments	(114,123)			(114,123)
Accumulated divestiture related write-offs	(85,872)			(85,872)
December 31, 2012	$	$ 36,238	$ 98,004	$ 134,242
Additions				
Impairments				
Divestitures				
Net change in goodwill during 2013				
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)
March 31, 2013	**$**	**$ 36,238**	**$ 98,004**	**$ 134,242**

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Note 6 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:

(Dollars in thousands)	Three Months Ended March 31 **2013**	2012
All other income and commissions:		
Bank-owned life insurance	**$ 5,472**	$ 4,772
Bankcard income	**4,882**	5,615
Other service charges	**3,086**	3,293
ATM interchange fees	**2,384**	2,556
Deferred compensation (a)	**1,593**	3,119
Electronic banking fees	**1,562**	1,706
Letter of credit fees	**1,499**	1,334
Other	**3,457**	5,821
Total	**$ 23,935**	$ 28,216
All other expense:		
Litigation and regulatory matters	**$ 5,170**	$ 153
Advertising and public relations	**3,947**	4,250
Other insurance and taxes	**3,046**	3,199
Tax credit investments	**2,972**	4,608
Travel and entertainment	**1,848**	1,864
Customer relations	**1,278**	855
Employee training and dues	**1,254**	1,092
Supplies	**1,055**	1,033
Bank examinations costs	**828**	799
Loan insurance expense	**540**	589
Federal service fees	**282**	321
Other	**6,327**	5,703
Total	**$ 28,547**	$ 24,466

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

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Note 7 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 period ended March 31, 2013:

(Dollars in thousands)	Unrealized Gain/(Loss) On Securities Available-For-Sale	Pension and Post Retirement Plans	Total
Balance as of December 31, 2012	$ 55,250	$ (201,593)	$ (146,343)
Other comprehensive income before reclassifications, Net of tax benefit of $4.2 million and $.1 million for unrealized gain/(loss) on securities available-for-sale and pension and post retirement plans, respectively	(6,659)	(183)	(6,842)
Amounts reclassified from accumulated other comprehensive income, Net of tax expense of $1.0 million for pension and post retirement plans		1,546	1,546
Net current period other comprehensive income, Net of tax benefit of $4.2 million and tax expense of $.9 million for unrealized gain/(loss) on securities available-for-sale and pension and post retirement plans, respectively	$ (6,659)	$ 1,363	$ (5,296)
Balance as of March 31, 2013	$ 48,591	$ (200,230)	$ (151,639)

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Note 8 Earnings Per Share

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

(Dollars in thousands)	Three Months Ended March 31 **2013**	2012
Income/(loss) from continuing operations	**$ 44,539**	$ 33,806
Income/(loss) from discontinued operations, net of tax	**430**	(435)
Net income/(loss)	**44,969**	33,371
Net income attributable to noncontrolling interest	**2,813**	2,844
Net income/(loss) attributable to controlling interest	**$ 42,156**	$ 30,527
Preferred stock dividends	**1,188**	
Net income/(loss) available to common shareholders	**$ 40,968**	$ 30,527
Income/(loss) from continuing operations	**$ 44,539**	$ 33,806
Net income attributable to noncontrolling interest	**2,813**	2,844
Preferred stock dividends	**1,188**	
Net income/(loss) from continuing operations available to common shareholders	**$ 40,538**	$ 30,962

The component of Income/(loss) from continuing operations attributable to FHN as the controlling interest holder was $41.7 million and $31.0 million during the three months ended March 31, 2013 and 2012, respectively.

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

(Shares in thousands)	Three Months Ended March 31 **2013**	2012
Weighted average common shares outstanding basic	**240,870**	253,527
Effect of dilutive securities	**1,929**	1,842
Weighted average common shares outstanding diluted	**242,799**	255,369

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

	Three Months Ended March 31 **2013**	2012
Earnings/(loss) per common share:		
Income/(loss) per share from continuing operations available to common shareholders	**$ 0.17**	$ 0.12
Income/(loss) per share from discontinued operations, net of tax		

Net income/(loss) per share available to common shareholders	**$**	**0.17**	$	0.12
Diluted earnings/(loss) per common share:				
Diluted income/(loss) per share from continuing operations available to common shareholders	**$**	**0.17**	$	0.12
Diluted income/(loss) per share from discontinued operations, net of tax				
Diluted income/(loss) per share available to common shareholders	**$**	**0.17**	$	0.12

For the three months ended March 31, 2013, the dilutive effect for all potential common shares, which relates entirely to equity compensation, was 1.9 million compared to 1.8 million in 2012. Stock options of 8.8 million and 9.9 million with weighted average exercise prices of $22.41and $23.96 per share for the three months ended March 31, 2013 and 2012, respectively, were excluded from diluted shares because including such shares would be antidilutive.

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Note 9 Contingencies and Other Disclosures

Contingencies

General

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

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

Litigation Gain Contingency

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

Litigation Loss Contingencies

Set forth below are discussions of certain pending or threatened litigation matters. These material loss contingency matters generally fall into the following categories: (i) FHN has determined material loss to be probable and has established a material loss liability in accordance with applicable financial accounting guidance, other than matters reported as having been substantially settled or otherwise substantially resolved; (ii) FHN has determined material loss to be probable but is unable to determine an amount of material loss liability; or (iii) FHN has determined that material loss is not probable but is reasonably possible (as defined in applicable accounting guidance, there is more than a remote chance of a material loss outcome for FHN). In all litigation matters discussed, except as indicated, FHN has estimated a range of reasonably possible loss outcomes in excess of any currently established loss liabilities. In all litigation matters discussed 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 March 31, 2013, the aggregate amount of liabilities established for the litigation loss contingency matters discussed below was $38.2 million. Only two matters discussed under the heading First Horizon Branded Mortgage Securitization Litigation Matters below, the FHFA and FHLB of Chicago cases, are among those matters for which a liability has been established. The liabilities discussed in this paragraph relate only to litigation matters and are separate from those discussed under the heading Established Repurchase Liability below.

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Note 9 Contingencies and Other Disclosures (Continued)

In each potential loss contingency litigation matter discussed below, except as otherwise noted, there is a more than slight chance that each of the following outcomes will occur: the plaintiff will substantially prevail; the defense will substantially prevail; the plaintiff will prevail in part; or the matter will be settled by the parties. At March 31, 2013, FHN estimates that, for those litigation loss contingency matters discussed below as to which reasonably possible loss is estimable, reasonably possible losses in future periods in excess of currently established liabilities could aggregate in a range from zero to approximately $231 million. Of those matters discussed under the heading First Horizon Branded Mortgage Securitization Litigation Matters, only the FHFA, FHLB of Chicago, Charles Schwab, and Western & Southern suits are included in that range.

Matters Included in Reasonably Possible Loss Range

Branch Sale Litigation Matter. Manufacturers & Traders Trust Company (M&T) is pursuing an arbitration claim against FTBNA arising out of FTBNA s sale of certain branch assets to M&T in 2007. M&T claims that FTBNA violated its obligations to repurchase home equity lines of credit (HELOCs) that it sold to M&T as part of the asset sale agreement. M&T alleges that the loans either are not in conformity with FTBNA s representations about them or are insured and sold due to mutual mistake or both. At this time, as a result of rulings to date, the claim has become a demand that FTBNA repurchase certain HELOCs having an original principal balance of $45.5 million. At March 31, 2013, the HELOCs at issue included loans with an unpaid principal balance (UPB) of $21.7 million and also included charged-off loans of $11.9 million. These HELOCs are not included in the mortgage repurchase pipeline discussed below as potential repurchase obligations, but instead are evaluated separately as part of this pending litigation matter based on specific facts and circumstances related to this loan sale. FHN s estimate of reasonably possible loss for this matter is subject to significant uncertainties regarding: the potential remedies that might be available or awarded; the identity and value of assets FHN may be required to repurchase; and the unpredictable nature of the arbitration process.

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

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

Matters Not Included in Reasonably Possible Loss Range

Several pending litigation matters are discussed under the heading First Horizon Branded Mortgage Securitization Litigation Matters below. For certain of those FHN has been able to estimate reasonably possible loss as mentioned in the preceding paragraph, and for others FHN has not. Those matters which currently are not estimable are the FDIC cases and the FHLB of San Francisco, Metropolitan Life, Royal Park, and FDIC 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.

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.

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Note 9 Contingencies and Other Disclosures (Continued)

At the time this report is filed, FHN, along with multiple defendants, is defending several lawsuits brought by investors which claim that the offering documents under which certificates relating to First Horizon branded securitizations (FH proprietary securitizations) were sold to them were materially deficient. The plaintiffs and venues of these suits are: (1) the Federal Housing Finance Agency (FHFA), as conservator for Fannie Mae and Freddie Mac, in U.S. District Court for the Southern District of New York (Case No. 11-cv-6193 (PGG)); (2) Charles Schwab Corp. in the Superior Court of San Francisco, California (Case No. 10-501610); (3) FHLB of Chicago in the Circuit Court of Cook County, Illinois (Case No. 10 CH 45033); (4) Western & Southern Life Insurance Co, among others in the Court of Common Pleas, Hamilton County, Ohio (Case No. A1105352); (5) 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 (6) 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 these 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: (7) FHLB of San Francisco, in the Superior Court of San Francisco County, California (Case No. CGC-10-497840); (8) Metropolitan Life Insurance Co., in the Supreme Court of New York County, New York (No. 651360-2012); and (9) Royal Park Invs. SA/NV, in the Supreme Court of New York County, New York (No. 652607-2012).

Details concerning the original purchase amounts and ending balance of the investments at issue in these 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 on 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 the partial certificates purchased by these plaintiffs. Plaintiffs in the pending lawsuits claimed to have purchased a total of $1.2 billion of certificates and the purchase price of the certificates subject to the indemnification requests total $331.4 million. Senior and Junior refer to the ranking of the investments in broad terms; in most cases the securitization provided for sub-classifications within the Senior or Junior groups.

	Alt-A		Jumbo	
(Dollars in thousands)	Senior	Junior	Senior	Junior
Vintage				
Original Purchase Price:				
2005 (a)	$ 843,868	$	$ 30,000	$
2006 (a)	307,926		84,659	9,793
2007	204,061		50,000	7,084
Total	$ 1,355,855	$	$ 164,659	$ 16,877
Ending Balance per the March 25, 2013, trust statements:				
2005	$ 328,033	$	$ 11,386	$
2006	116,504		30,362	3,944
2007	110,026		17,243	
Total	$ 554,563	$	$ 58,991	$ 3,944

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

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

The ending certificate balance of the investments which are the subject of the FHFA lawsuit was $331.6 million as reported on the March 25, 2013, trust statements, with approximately 85 percent of the remaining balances performing. Cumulative losses on the FHFA investments which are the subject of the lawsuit, as reported on the trust statements, represent approximately 7 percent of the original principal amount underlying the certificates purchased. The total ending certificate balance of the investments which are the subject of the remaining lawsuits was $285.9 million as reported on the March 25, 2013, trust statements, with approximately 80 percent of the remaining balances performing. Cumulative losses on the investments which are the subject of the remaining lawsuits, as reported on the trust statements, represent approximately 5 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

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Note 9 Contingencies and Other Disclosures (Continued)

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 are often reported by the trustee based on each certificate within a pool or group, which limits FHN s ability to ascertain losses at the individual investor level.

As discussed under Legacy Home Loan Sales and Servicing, similar claims may be pursued by other investors, and loan repurchase, make-whole, or indemnity claims may be pursued by securitization trustees or other parties to transactions seeking indemnity. At March 31, 2013, except for the FHFA and FHLB of Chicago cases, FHN had not recognized a liability for exposure for investment rescission or damages arising from the foregoing or other potential claims by investors that the offering documents under which the loans were securitized were materially deficient, nor for exposure for repurchase of loans arising from potential claims that FHN breached its representations and warranties made in FH proprietary securitizations at closing.

Contract Claim Settlement Process Mortgage Repurchase Pipeline

For several years FHN has received claims from government sponsored enterprises (GSEs), other government agencies, mortgage insurers, and others that FHN breached certain representations and warranties made in connection with whole-loan sales prior to September 2008. Generally such claims request or otherwise demand that FHN repurchase the loans or otherwise make the purchaser whole. FHN analyzes these claims using a pipeline approach. FHN reviews each claim in the pipeline and either offers to satisfy the claim or rejects the claim by asking the claimant to rescind it. FHN has established a material loss liability for probable incurred losses related to repurchase obligations for breaches of representations and warranties. As of March 31, 2013, none of these claims had become active litigation. These matters and the associated reserving methodologies are discussed under Legacy Home Loan Sales and Servicing.

Legacy Home Loan Sales and Servicing

Overview

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

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

From 2005 through 2008, FHN originated and sold $69.5 billion of mortgage loans without recourse which includes $57.6 billion of loans sold to GSEs and $11.9 billion of loans guaranteed by Ginnie Mae. Although additional GSE sales occurred in earlier years, a substantial majority of GSE repurchase requests have come from that period. In addition, for many years ending in 2007, FHN securitized mortgage loans without recourse in First Horizon branded proprietary transactions. From 2005 through 2007, FHN securitized $26.7 billion of mortgage loans under the First Horizon (FH) brand.

Note 9 Contingencies and Other Disclosures (Continued)

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

Loans Sold With Full or Limited Recourse

Although not a substantial part of FHN s former business, FHN sold certain Agency mortgage loans with full recourse under agreements to repurchase the loans upon default. Loans sold with full recourse generally include mortgage loans sold to investors in the secondary market which are uninsurable under government mortgage loan programs due to issues associated with underwriting activities, documentation, or other concerns. For mortgage insured single-family residential loans, in the event of borrower nonperformance, FHN would assume losses to the extent they exceed the value of the collateral and private mortgage insurance (MI), the Federal Housing Administration (FHA) insurance, or the Veteran s Administration (VA) guaranty. On March 31, 2013 and 2012, the current UPB of single-family residential loans that were sold on a full recourse basis with servicing retained was $34.0 million and $42.3 million, respectively.

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

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

HUD Inquiry regarding FHA-Insured Loans

As disclosed in previous reports, FHN is cooperating with the U.S. Department of Justice and the Office of the Inspector General for the Department of Housing and Urban Development (HUD) in a civil investigation regarding compliance with requirements relating to certain FHA-insured loans. FHN has been notified that it will be informed of the preliminary results of the investigation during the second quarter 2013. The investigation could lead to a demand under the federal False Claims Act and the federal Financial Institutions Reform, Recovery, and Enforcement Act of 1989, which allow treble and other special damages substantially in excess of actual losses. Currently FHN is not able to predict the eventual outcome of this matter and has established no liability for it.

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

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

Agency Whole-loan Sales

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

Generally these loans were sold without recourse for credit loss. However, if it is determined that the loans sold were in breach of representations or warranties required by the Agency and made by FHN at the time of sale, FHN has obligations to either repurchase the loan for the UPB or make the purchaser whole for the economic loss incurred by the purchaser of such loan. Such representations and warranties required by the Agencies typically include those made regarding the existence and sufficiency of file documentation and the absence of fraud by borrowers or other third parties such as appraisers in connection with obtaining the loan. A substantial amount of FHN s existing repurchase obligations from outstanding requests relate to conforming conventional mortgage loans that were sold to the GSEs. Since the mortgage platform sale in 2008 through March 31, 2013, Agencies have accounted for the vast majority of repurchase/make-whole claims received.

Note 9 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 trusts or other vehicles. The certificates were sold to a variety of investors, including GSEs in some cases, through securities offerings under a prospectus or other offering documents. In most cases, the certificates were tiered into different risk classes, with junior classes exposed to trust losses first and senior classes exposed only after junior classes were exhausted. FHN still services substantially all of the remaining loans sold through FH proprietary securitizations. As of March 31, 2013, the remaining UPB in active FH proprietary securitizations from 2005 through 2007 was $8.2 billion consisting of $5.5 billion Alt-A mortgage loans and $2.7 billion Jumbo mortgage loans. Representations and warranties were made to the trustee for the benefit of investors. As such, FHN has exposure for repurchase of loans arising from claims that FHN breached its representations and warranties made at closing, and exposure for investment rescission or damages arising from claims by investors that the offering documents under which the loans were securitized were materially deficient. As of March 31, 2013, the repurchase request pipeline contained no repurchase requests related to FH proprietary first lien securitizations based on breaches of representations and warranties.

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

In addition, the FH proprietary securitization trustee generally may initiate a loan review, without prior official action by investors, for the purpose of determining compliance with applicable representations and warranties with respect to any or all of the active FH proprietary securitizations. If non-compliance is discovered, the trustee may seek repurchase or other relief. At March 31, 2013, FHN s trustee had made no claims against FHN and no litigation by the trustee was pending against FHN. Accordingly, FHN is not able to estimate any liability for this risk. FHN similarly is not able to estimate a range of reasonably possible losses associated with this risk, and no such amounts are included in the aggregate range discussed above. Those inabilities are due to significant uncertainties regarding: the absence of claims made; the nature and outcome of any claims process or related settlement discussions if pursued; the outcome of litigation if litigation is pursued; the identity and value of assets that FHN may be required to repurchase to the extent asset repurchase is sought; and the lack of precedent claims.

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

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Note 9 Contingencies and Other Disclosures (Continued)

Monoline insurance is 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 guarantees 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 March 25, 2013, reported to FHN that the remaining outstanding certificate balance for the class was $23.7 million. FHN understands that some monoline insurers have commenced lawsuits against others in the industry seeking to rescind policies of this sort due to alleged misrepresentations as to the quality of the loan portfolio insured. FHN has not received notice of a lawsuit from the monoline insurers of the senior retail level class.

Other First Horizon Branded Proprietary Securitizations

FHN originated and sold home equity lines and second lien loans through certain FH proprietary securitization trusts, most of which related to HELOC loans. As of March 31, 2013, only three of those securitizations, all HELOC, remain active; the rest have been retired as a result of clean-up calls exercised by FHN. Each remaining trust issued notes backed by these loans and publicly offered the asset-backed notes to investors pursuant to a prospectus. The Trustee statements dated March 25, 2013, reported that the cumulative original and current outstanding note balances of the FH proprietary HELOC securitizations were $961.8 million and $350.2 million, respectively.

The loans in the FH HELOC securitization trusts are included on FHN s balance sheet in accordance with Generally Accepted Accounting Principles either as consolidated variable interest entities (VIEs) or because the securitization did not qualify for sale treatment under GAAP. These loans and the associated credit risk are reflected in FHN s consolidated financial statements. As of March 31, 2013, the loans related to the consolidated VIEs and the associated ALLL are reflected as restricted on the Consolidated Condensed Statements of Condition.

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

Other Whole-loan Sales

FHN has sold first lien mortgages without recourse through whole-loan sales to non-Agency purchasers. FHN made contractual representations and warranties to the purchasers generally similar to those made to Agency purchasers. As of March 31, 2013, the amount of repurchase/make-whole claims related to such other whole-loan sales was negligible. These claims are included in FHN s liability methodology and the assessment of the adequacy of the repurchase and foreclosure liability.

Many of these loans were included by the purchasers in non-FH securitizations. FHN s contractual representations and warranties to these loan purchasers generally included indemnity covenants for losses and expenses applicable to the securitization caused by FHN s breach. FHN has received indemnification requests from UBS Securities LLC and certain affiliates, and from certain affiliates of Citigroup. FHN also has received subpoenas seeking loan reviews in certain cases where FHN is not a defendant. In addition, the trustee of a non-FH securitization which included FHN loans has commenced a legal proceeding against FHN and others seeking repurchase or make-whole based on claimed breaches of representations and warranties made to the purchaser/securitizer. The trustee is basing its claim, in part, on an assignment of contractual rights FHN gave to FHN s loan purchaser. The trustee has not yet provided verification that the loans at issue were originated by FHN and, accordingly, FHN is not able to assess whether breaches occurred or whether FHN is responsible for any such breaches. These matters are not included in the repurchase pipeline.

Government Entity Loan Reviews

Certain government entities acting on behalf of several purchasers of FH proprietary and other securitizations have subpoenaed information from FHN and others. In 2009 FHN was subpoenaed by the federal regulator of credit unions, the National Credit Union Administration (NCUA), related to FH proprietary securitization investments by certain federal credit unions. There has been little communications with FHN associated with this matter since 2010. FHN has been subpoenaed by the FHFA acting as conservator for

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Note 9 Contingencies and Other Disclosures (Continued)

Fannie Mae and Freddie Mac related to securitization investments by those institutions. In addition, the FHLB of San Francisco and FHLB of Atlanta have subpoenaed FHN for purposes of a loan origination review related to certain of their securitization investments. Collectively, the NCUA, FHFA, and FHLB subpoenas seek information concerning a number of FH proprietary first lien securitizations and a FH proprietary HELOC securitization during 2005 and 2006. In addition, the FDIC, acting on behalf of certain failed banks, has also subpoenaed FHN related to FH proprietary securitization investments by those institutions.

The FDIC, FHFA and FHLB of San Francisco subpoenas also concern loans sold by FHN to non-Agency purchasers on a whole-loan basis which were included by those purchasers in non-FH securitizations. That lending activity is discussed above under Other Whole-loan Sales. In addition, the FHLB of Seattle has subpoenaed FHN in connections 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 the FDIC, FHFA, and FHLB subpoenas. The FDIC subpoenas overlap partially, and the FHFA subpoenas overlap substantially, with the ongoing litigation matters mentioned above under Litigation Loss Contingencies.

The subpoenas discussed above relate to ongoing reviews which ultimately could result in claims against FHN. The original and current (as of March 25, 2013 trust statements) combined first lien certificate balances of the related FH proprietary securitizations in which the credit unions invested were $321.6 million and $127.2 million, respectively. The original and current (as of March 25, 2013 trust statements) HELOC certificate balances of the related FH proprietary HELOC securitization in which the credit unions invested was $299.8 million and $94.8 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 $160.5 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 $13.6 million, respectively. There are limitations as to FHN s knowledge of the amount of FH proprietary securitizations investments that are subject to the FDIC, FHFA and FHLB of San Francisco subpoenas. Since the reviews at this time are neither repurchase claims nor litigation, the associated loans are not considered part of the repurchase pipeline.

Private Mortgage Insurance

MI was required by GSE rules for certain of the loans sold to GSEs and was also provided for certain of the loans that were securitized. MI generally was provided for the first lien loans sold or securitized having a loan-to-value ratio at origination of greater than 80 percent. Although unresolved MI cancellation notices related to GSE-owned loans are not formal repurchase requests, FHN includes these in the active repurchase request pipeline. FHN tracks and monitors MI cancellation notices received and considers the amount of loans sold to GSEs where MI coverage has ultimately been lost when assessing the overall adequacy of FHN s repurchase liability. As of March 31, 2013 and 2012, $454.7 million and $367.1 million, respectively, of loans sold or securitized have lost MI coverage.

Established Repurchase Liability

In second quarter 2012, significant new information was received from Fannie Mae, including information relating to loans previously transferred and no longer serviced by FHN. Fannie Mae updates this information periodically, and updated this information most recently in first quarter 2013. FHN s current estimate of losses associated with repurchase obligations for loans sold to Fannie and Freddie is based on Fannie s information as most recently updated. That information includes: trends and status of loans currently selected for review and potential repurchase demand; information about loans, by vintage year, concerning portfolio attrition, delinquency, default, payoff, and unpaid balance; and information supporting anticipated future selections (for review and potential repurchase demand) from liquidated loans and seriously delinquent loan pools. Based on currently available information and experience to date, FHN has evaluated its exposure under all of these obligations and accordingly had reserved for losses of $185.5 million and $163.3 million as of March 31, 2013 and 2012, respectively, including a smaller amount related to equity-lending junior lien loan sales. A vast majority of this liability relates to obligations associated with the sale of first lien mortgages to GSEs through the legacy mortgage banking business. Accrued liabilities for FHN s estimate of these obligations are reflected in Other liabilities on the Consolidated Condensed Statements of Condition. Charges to increase the liability are included within Repurchase and foreclosure provision on the Consolidated Condensed Statements of Income. The estimate is based upon currently available information and fact patterns that exist as of the balance sheet date and could be subject to future changes. Changes to any one of these factors could significantly impact the estimate of FHN s liability.

Servicing and Foreclosure Practices

FHN services a predominately first lien mortgage loan portfolio with an unpaid principal balance of approximately $17 billion as of March 31, 2013. A substantial portion of the first lien portfolio is serviced through a subservicer. The first lien portfolio is held primarily by private security holders and GSEs, with less significant portions held by other private investors. In connection with its servicing activities, FHN collects and remits the principal and interest payments on the underlying loans for the account of the appropriate investor. In the event of delinquency or non-payment on a loan in a private or agency securitization: (1) the terms of the private securities agreements generally require FHN, as servicer, to continue to make monthly advances of principal and interest (P&I) to the trustee for the benefit of the investors; and (2) the terms of the majority of the agency agreements may require the

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Note 9 Contingencies and Other Disclosures (Continued)

servicer to make advances of P&I, or in certain circumstances to repurchase the loan out of the trust pool. In the event payments are ultimately made by FHN to satisfy this obligation, P&I advances and servicer advances are recoverable from: (1) the liquidation proceeds of the property securing the loan, in the case of private securitizations and (2) the proceeds of the foreclosure sale by the government agency, in the case of government agency-owned loans. As of March 31, 2013 and 2012, FHN has recognized servicing and P&I advances of $304.8 million and $330.9 million, respectively. Servicing and P&I advances are included in Other assets on the Consolidated Condensed Statements of Condition.

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

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

FHN s national mortgage and servicing platforms were sold in August 2008 and the related servicing activities, including foreclosure and loss mitigation practices, of the still-owned portion of FHN s mortgage servicing portfolio was outsourced through a three year subservicing arrangement (the 2008 subservicing agreement) with the platform buyer (the 2008 subservicer). The 2008 subservicing agreement expired in August 2011. In 2011, FHN entered into a replacement agreement with a new subservicer (the 2011 subservicer).

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

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

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

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Note 9 Contingencies and Other Disclosures (Continued)

Other Disclosures Visa Matters

FHN is a member of the Visa USA network. On October 3, 2007, the Visa organization of affiliated entities completed a series of global restructuring transactions to combine its affiliated operating companies, including Visa USA, under a single holding company, Visa Inc. (Visa). Upon completion of the reorganization, the members of the Visa USA network remained contingently liable for certain Visa litigation matters (the Covered Litigation). Based on its proportionate membership share of Visa USA, FHN recognized a contingent liability in fourth quarter 2007 related to this contingent obligation. In March 2008, Visa completed its initial public offering (IPO) and funded an escrow account from its IPO proceeds to be used to make payments related to the Visa litigation matters. FHN received approximately 2.4 million Class B shares in conjunction with Visa s IPO.

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

On July 13, 2012, Visa and MasterCard announced a joint settlement related to the Payment Card Interchange matter (the Settlement). The Settlement is subject to judicial approval. Based on the amount of the Settlement attributable to Visa and an assessment of FHN s contingent liability accrued for Visa litigation matters, the Settlement did not have material impact on FHN. As a result of the Settlement, Visa funded an additional $150 million into the escrow account in July 2012, and as a result FHN made a payment to the counterparty of $.8 million. As of March 31, 2013, the conversion ratio is 42 percent, and the contingent liability is $.8 million. Future funding of the escrow would dilute this exchange rate by an amount that is not determinable.

As of March 31, 2013 and 2012, the derivative liabilities were $2.1 million and $2.9 million, respectively.

FHN now holds approximately 1.1 million Visa Class B shares. FHN s Visa shares are included in the Consolidated Condensed Statements of Condition at their historical cost of $0. Based on the closing price on May 3, 2013, assuming conversion into Class A shares at the current conversion ratio, FHN s Visa holdings would have a value of approximately $84 million. Recognition of this value is dependent upon the final resolution of the remainder of Visa s Covered Litigation matters without further reduction of the conversion ratio. A fairness hearing is scheduled for September 12, 2013, regarding the Settlement. The outcome and timing of decisions from this hearing are uncertain. Additionally, other Covered Litigation matters are also pending judicial resolution. In the event that the Settlement is not approved and/or if resolution is pending for any Covered Litigation matter, FHN s ability to transfer its Visa holdings would continue to be restricted.

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 10 Pension, Savings, and Other Employee Benefits

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

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

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

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

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

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

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

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Note 10 Pension, Savings, and Other Employee Benefits (Continued)

The components of net periodic benefit cost for the three months ended March 31 are as follows:

	Pension Benefits		Other Benefits	
(Dollars in thousands)	**2013**	2012	**2013**	2012
Components of net periodic benefit cost				
Service cost	**$ 62**	$ 4,351	**$ 134**	$ 124
Interest cost	**8,085**	8,295	**548**	556
Expected return on plan assets	**(8,727)**	(9,947)	**(197)**	(230)
Amortization of unrecognized:				
Transition (asset)/obligation				184
Prior service cost/(credit)	**88**	100	**8**	(2)
Actuarial (gain)/loss	**2,400**	8,824	**17**	(153)
Net periodic benefit cost	**$ 1,908**	$ 11,623	**$ 510**	$ 479

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Note 11 Business Segment Information

FHN has four business segments: regional banking, capital markets, corporate, and non-strategic. The regional banking segment offers financial products and services, including traditional lending and deposit taking, to retail and commercial customers largely in Tennessee and surrounding markets. Regional banking provides investments, financial planning, trust services and asset management, credit card, and cash management. Additionally, the regional banking segment includes correspondent banking which provides credit, depository, and other banking related services to other financial institutions. 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, and various charges related to restructuring, repositioning, and efficiency initiatives. The non-strategic segment consists of the wind-down national consumer lending activities, legacy mortgage banking elements including servicing fees, and the associated ancillary revenues and expenses related to these businesses. Non-strategic also includes the wind-down trust preferred loan portfolio and exited businesses along with the associated restructuring, repositioning, and efficiency charges.

Periodically, FHN adapts its segments to reflect managerial or strategic changes. FHN may also modify its methodology of allocating expenses among segments which could change historical segment results. Total revenue, expense, and asset levels reflect those which are specifically identifiable or which are allocated based on internal allocation method. Because the allocations are based on internally developed assignments and allocations they are to an extent subjective. Generally, all assignments and allocations have been consistently applied for all periods presented. The following table reflects the amounts of consolidated revenue, expense, tax, and assets for each segment for three months ended March 31:

	Three Months Ended March 31	
(Dollars in thousands)	2013	2012
Consolidated		
Net interest income	**$ 161,382**	$ 171,929
Provision for loan losses	**15,000**	8,000
Noninterest income	**156,427**	202,441
Noninterest expense	**240,540**	321,994
Income/(loss) before income taxes	**62,269**	44,376
Provision/(benefit) for income taxes	**17,730**	10,570
Income/(loss) from continuing operations	**44,539**	33,806
Income/(loss) from discontinued operations, net of tax	**430**	(435)
Net income/(loss)	**$ 44,969**	$ 33,371
Average assets	**$ 25,078,227**	$ 25,200,373

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Note 11 Business Segment Information (Continued)

(Dollars in thousands)	Three Months Ended March 31 **2013**	2012
Regional Banking		
Net interest income	**$ 145,097**	$ 146,636
Provision/(provision credit) for loan losses	**(2,485)**	(7,426)
Noninterest income	**59,144**	60,052
Noninterest expense	**128,713**	140,643
Income/(loss) before income taxes	**78,013**	73,471
Provision/(benefit) for income taxes	**28,352**	26,752
Net income/(loss)	**$ 49,661**	$ 46,719
Average assets	**$ 12,956,515**	$ 12,231,651
Capital Markets		
Net interest income	**$ 3,847**	$ 5,680
Noninterest income	**76,612**	106,775
Noninterest expense	**61,668**	80,306
Income/(loss) before income taxes	**18,791**	32,149
Provision/(benefit) for income taxes	**7,123**	12,238
Net income/(loss)	**$ 11,668**	$ 19,911
Average assets	**$ 2,492,129**	$ 2,351,599
Corporate		
Net interest income/(expense)	**$ (7,717)**	$ (5,309)
Noninterest income	**7,855**	9,262
Noninterest expense	**17,587**	22,373
Income/(loss) before income taxes	**(17,449)**	(18,420)
Provision/(benefit) for income taxes	**(11,171)**	(11,934)
Net income/(loss)	**$ (6,278)**	$ (6,486)
Average assets	**$ 5,254,397**	$ 5,427,352
Non-Strategic		
Net interest income	**$ 20,155**	$ 24,922
Provision for loan losses	**17,485**	15,426
Noninterest income	**12,816**	26,352
Noninterest expense	**32,572**	78,672
Income/(loss) before income taxes	**(17,086)**	(42,824)
Provision/(benefit) for income taxes	**(6,574)**	(16,486)
Income/(loss) from continuing operations	**(10,512)**	(26,338)
Income/(loss) from discontinued operations, net of tax	**430**	(435)

Net income/(loss)	**$ (10,082)**	$ (26,773)
Average assets	**$ 4,375,186**	$ 5,189,771

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

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Note 12 Loan Sales and Securitizations

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

Retained Interests

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

In certain cases, FHN continues to service and receive servicing fees related to the transferred loans. During first quarter 2013 and 2012, FHN received annual servicing fees approximating .29 percent of the outstanding balance of underlying single-family residential mortgage loans and .34 percent inclusive of income related to excess interest. In first quarter 2013 and 2012, FHN received annual servicing fees approximating .50 percent of the outstanding balance of underlying loans for HELOC and home equity loans transferred. MSR related to loans transferred and serviced by FHN, as well as MSR related to loans serviced by FHN and transferred by others, are discussed further in Note 4 Mortgage Servicing Rights. There were no additions to MSR in 2013 or 2012.

The sensitivity of the fair value of all retained or purchased MSR to immediate 10 percent and 20 percent adverse changes in assumptions on March 31, 2013 and 2012 are as follows:

	March 31, 2013			March 31, 2012		
(Dollars in thousands except for annual cost to service)	**First Liens**	**Second Liens**	**HELOC**	First Liens	Second Liens	HELOC
Fair value of retained interests	**$ 106,191**	**$ 193**	**$ 2,718**	$ 139,676	$ 222	$ 3,058
Weighted average life (in years)	**4.0**	**3.1**	**3.1**	4.0	2.9	2.8
Annual prepayment rate	**20.7%**	**28.5%**	**28.9 %**	20.8%	26.0%	27.5%
Impact on fair value of 10% adverse change	**$ (5,343)**	**$ (12)**	**$ (149)**	$ (7,218)	$ (14)	$ (190)
Impact on fair value of 20% adverse change	**(10,210)**	**(24)**	**(287)**	(13,794)	(27)	(365)
Annual discount rate on servicing cash flows	**11.8%**	**14.0%**	**18.0 %**	11.8%	14.0%	18.0%
Impact on fair value of 10% adverse change	**$ (2,945)**	**$ (5)**	**$ (84)**	$ (3,939)	$ (6)	$ (95)
Impact on fair value of 20% adverse change	**(5,715)**	**(10)**	**(163)**	(7,638)	(12)	(184)
Annual cost to service (per loan) (a)	**$ 118**	**$ 50**	**$ 50**	$ 116	$ 50	$ 50
Impact on fair value of 10% adverse change	**(2,597)**	**(4)**	**(42)**	(3,303)	(5)	(49)
Impact on fair value of 20% adverse change	**(5,177)**	**(9)**	**(84)**	(6,585)	(10)	(98)
Annual earnings on escrow	**1.4%**			1.4%		
Impact on fair value of 10% adverse change	**$ (686)**			$ (1,127)		
Impact on fair value of 20% adverse change	**(1,372)**			(2,255)		

(a) Amounts represent market participant based assumptions.

The sensitivity of the fair value of other retained interests to immediate 10 percent and 20 percent adverse changes in assumptions on March 31, 2013 and 2012, are as follows:

	March 31, 2013		March 31, 2012	
(Dollars in thousands)	**Excess Interest IO**	**Certificated PO (a)**	Excess Interest IO	Certificated PO
Fair value of retained interests	**$ 11,161**	**$ 5,293**	$ 17,124	$ 7,229
Weighted average life (in years)	**3.9**	**2.5**	4.0	3.2

Annual prepayment rate	**18.9%**	**31.8%**	18.6%	24.7%
Impact on fair value of 10% adverse change	**$ (501)**	**$ (239)**	$ (758)	$ (315)
Impact on fair value of 20% adverse change	**(965)**	**(503)**	(1,462)	(661)
Annual discount rate on residual cash flows	**13.3%**	**NM**	13.4%	19.1%
Impact on fair value of 10% adverse change	**$ (400)**	**NM**	$ (675)	$ (245)
Impact on fair value of 20% adverse change	**(769)**	**NM**	(1,294)	(470)

NM - Not meaningful

(a) In the second half of 2012, FHN changed the method used to estimate the fair value for certified PO due to more limited market information for these securities.

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Note 12 Loan Sales and Securitizations (Continued)

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

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

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

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

For the three months ended March 31, 2013 and 2012, cash flows received and paid related to loan sales and securitizations were as follows:

	Three Months Ended March 31	
(Dollars in thousands)	**2013**	2012
Proceeds from initial sales	**$ 10,843**	$ 54,296
Servicing fees retained (a)	**12,589**	17,732
Purchases of GNMA guaranteed mortgages	**39,041**	35,031
Purchases of previously transferred financial assets (b) (c)	**144,737**	66,799
Other cash flows received on retained interests	**1,413**	1,664

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

The principal amount of loans transferred through loan sales and securitizations and other loans managed with them, the principal amount of delinquent loans, and the net credit losses during first quarters 2013 and 2012 are as follows:

	Principal Amount of Residential Real Estate Loans (a) (b) (c) March 31		Net Credit Losses (c) Three Months Ended March 31	
(Dollars in thousands)	**2013**	2012	**2013**	2012
Total loans managed or transferred	**$ 14,403,257**	$ 17,396,233	**$ 62,627**	$ 116,486

(a) Amounts represent real estate residential loans in FHN s portfolio, held-for-sale, and loans that have been transferred in proprietary securitizations and whole loan sales in which FHN has a retained interest other than servicing rights. Also includes $5.3 billion and $7.5 billion of loans transferred to GSEs with any type of retained interest on March 31, 2013 and 2012, respectively.

(b) On March 31, 2013 and 2012, includes $.7 billion and $.8 billion, respectively, where the principal amount is 90 days or more past due or nonaccrual. Included in these amounts are $40.5 million and $40.0 million of GNMA guaranteed mortgages on March 31, 2013 and 2012, respectively.

(c) No delinquency or net credit loss data is provided for the loans transferred to FNMA or FHLMC because these agencies retain credit risk. See Note 9 Contingencies and Other Disclosures for discussion related to repurchase obligations for loans transferred to GSEs or private investors.

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Note 13 Variable Interest Entities

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

Consolidated Variable Interest Entities

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

Included in the March 31, 2013, balance of consolidated proprietary residential mortgage securitizations is a HELOC securitization trust that has entered a rapid amortization period and for which FHN is obligated to provide subordinated funding. During this period, cash payments from borrowers are accumulated to repay outstanding debt securities while FHN continues to make advances to borrowers when they draw on their lines of credit. FHN then transfers the newly generated receivables into the securitization trust and is reimbursed only after other parties in the securitization have received all of the cash flows to which they are entitled. If loan losses requiring draws on the related monoline insurers policies, which protect bondholders in the securitization, exceed a certain level, FHN may not receive reimbursement for all of the funds advanced to borrowers, as the senior bondholders and the monoline insurers typically have priority for repayment. This securitization trust is currently consolidated by FHN due to FHN s status as the Master Servicer for the securitization and the retention of a significant residual interest. Consistent with the consolidated nature of this trust, amounts funded from monoline insurance policies are considered as additional restricted term borrowings in FHN s Consolidated Condensed Statements of Condition.

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

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

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Note 13 Variable Interest Entities (Continued)

The following table summarizes VIEs consolidated by FHN as of March 31, 2013 and 2012:

	March 31, 2013		March 31, 2012	
(Dollars in thousands)	**On-Balance Sheet Consumer Loan Securitizations Carrying Value**	**Rabbi Trusts Used for Deferred Compensation Plans Carrying Value**	On-Balance Sheet Consumer Loan Securitizations Carrying Value	Rabbi Trusts Used for Deferred Compensation Plans Carrying Value
Assets:				
Cash and due from banks	**$ 243**	**N/A**	$ 1,671	N/A
Loans, net of unearned income	**114,505**	**N/A**	154,533	N/A
Less: Allowance for loan losses	**3,712**	**N/A**	10,388	N/A
Total net loans	110,793	N/A	144,145	N/A
Other assets	**1,647**	**$ 62,053**	4,477	$ 61,632
Total assets	**$ 112,683**	**$ 62,053**	$ 150,293	$ 61,632
Liabilities:				
Term borrowings	**$ 104,875**	**N/A**	$ 150,328	N/A
Other liabilities	**24**	**$ 49,720**	48	$ 52,712
Total liabilities	**$ 104,899**	**$ 49,720**	$ 150,376	$ 52,712

Nonconsolidated Variable Interest Entities

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

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

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

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

Note 13 Variable Interest Entities (Continued)

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

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

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

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

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

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

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

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Note 13 Variable Interest Entities (Continued)

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

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

The following table summarizes FHN s nonconsolidated VIEs as of March 31, 2013:

(Dollars in thousands)	Maximum Loss Exposure	Liability Recognized	Classification
Type			
Low income housing partnerships (a) (b)	$ 52,528	$	Other assets
New market tax credit LLCs (b) (c)	23,494		Other assets
Small issuer trust preferred holdings (d)	418,404		Loans, net of unearned income
On-balance sheet trust preferred securitization	54,577	59,597	(e)
Proprietary trust preferred issuances (f)	N/A	206,186	Term borrowings
Proprietary and agency residential mortgage securitizations	416,648		(g)
On-balance sheet consumer loan securitizations	14,477	270,385	(h)
Holdings of agency mortgage-backed securities (d)	3,584,187		(i)
Short positions in agency mortgage-backed securities (f)	N/A	51,108	Trading liabilities
Commercial loan troubled debt restructurings (j) (k)	68,921		Loans, net of unearned income
Managed discretionary trusts (f)	N/A	N/A	N/A

(a) Maximum loss exposure represents $50.6 million of current investments and $1.9 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 $59.6 million classified as Term borrowings.
(f) No exposure to loss due to the nature of FHN s involvement.
(g) Includes $66.6 million and $28.7 million classified as MSR and $7.6 million and $8.8 million classified as Trading securities related to proprietary and agency residential mortgage securitizations, respectively. Aggregate servicing advances of $304.8 million are classified as Other assets.
(h) Includes $284.9 million classified as Loans, net of unearned income which are offset by $270.4 million classified as Term borrowings.
(i) Includes $669.3 million classified as Trading securities and $2.9 billion classified as Securities available for sale.
(j)

Maximum loss exposure represents $65.7 million of current receivables and $3.2 million of contractual funding commitments on loans related to commercial borrowers involved in a troubled debt restructuring.

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

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Note 13 Variable Interest Entities (Continued)

The following table summarizes FHN s nonconsolidated VIEs as of March 31, 2012:

(Dollars in thousands)	Maximum Loss Exposure	Liability Recognized	Classification
Type			
Low income housing partnerships (a) (b)	$ 66,524	$	Other assets
New market tax credit LLCs (b) (c)	20,726		Other assets
Small issuer trust preferred holdings (d)	447,156		Loans, net of unearned income
On-balance sheet trust preferred securitization	61,723	52,451	(e)
Proprietary trust preferred issuances (f)	N/A	206,186	Term borrowings
Proprietary and agency residential mortgage securitizations	480,107		(g)
On-balance sheet consumer loan securitizations	11,646	338,817	(h)
Holdings of agency mortgage-backed securities (d)	3,626,034		(i)
Short positions in agency mortgage-backed securities (f)	N/A		Trading liabilities
Commercial loan troubled debt restructurings (j) (k)	83,746		Loans, net of unearned income
Managed discretionary trusts (f)	N/A	N/A	N/A

(a) Maximum loss exposure represents $66.1 million of current investments and $.5 million of contractual funding commitments. Only the current investment amount is included in Other assets.
(b) A liability is not recognized as investments are written down over the life of the related tax credit.
(c) Maximum loss exposure represents current investment balance. Of the initial investment $15.3 million was funded through loans from community development enterprises.
(d) Maximum loss exposure represents the value of current investments. A liability is not recognized as FHN is solely a holder of the trusts securities.
(e) Includes $112.5 million classified as Loans, net of unearned income, and $1.7 million classified as Trading securities which are offset by $52.5 million classified as Term borrowings.
(f) No exposure to loss due to the nature of FHN s involvement.
(g) Includes $81.1 million and $43.5 million classified as MSR and $11.2 million and $13.4 million classified as Trading securities related to proprietary and agency residential mortgage securitizations, respectively. Aggregate servicing advances of $330.9 million are classified as Other assets.
(h) Includes $350.5 million as Loans, net of unearned income which are offset by $338.8 million classified as Term borrowings.
(i) Includes $626.2 million classified as Trading securities and $3.0 billion classified as Securities available for sale.
(j) Maximum loss exposure represents $82.7 million of current receivables and $1.1 million of contractual funding commitments on loans related to commercial borrowers involved in a troubled debt restructuring.
(k) A liability is not recognized as the loans are the only variable interests held in the troubled commercial borrowers operations.

See Note 9 Contingencies and Other Disclosures for information regarding FHN s repurchase exposure for claims that FHN breached its standard representations and warranties made in connection with the sale of loans to proprietary and agency residential mortgage securitization trusts.

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Note 14 Derivatives

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

Credit risk represents the potential loss that may occur if a party to a transaction fails to perform according to the terms of the contract. The measure of credit exposure is the replacement cost of contracts with a positive fair value. FHN manages credit risk by entering into financial instrument transactions through national exchanges, primary dealers or approved counterparties, and using mutual margining and master netting agreements whenever possible to limit potential exposure. FHN also maintains collateral posting requirements with its counterparties to limit credit risk. On March 31, 2013 and 2012, respectively, FHN had $163.2 million and $184.8 million of cash receivables and $124.3 million and $158.3 million of cash payables related to collateral posting under master netting arrangements, inclusive of collateral posted related to contracts with adjustable collateral posting thresholds and over collateralized positions, with derivative counterparties. With exchange-traded contracts, the credit risk is limited to the clearinghouse used. For non-exchange traded instruments, credit risk may occur when there is a gain in the fair value of the financial instrument and the counterparty fails to perform according to the terms of the contract and/or when the collateral proves to be of insufficient value. See additional discussion regarding master netting agreements and collateral posting requirements later in this note under the heading Master Netting and Similar Agreements . Market risk represents the potential loss due to the decrease in the value of a financial instrument caused primarily by changes in interest rates, mortgage loan prepayment speeds, or the prices of debt instruments. FHN manages market risk by establishing and monitoring limits on the types and degree of risk that may be undertaken. FHN continually measures this risk through the use of models that measure value-at-risk and earnings-at-risk.

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

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

Legacy Mortgage Servicing Operations

Retained Interests

FHN revalues MSR to current fair value each month with changes in fair value included in servicing income in Mortgage banking noninterest income on the Consolidated Condensed Statements of Income. FHN hedges the MSR to minimize the effects of loss in value of MSR associated with increased prepayment activity that generally results from declining interest rates. In a rising interest rate environment, the value of the MSR generally will increase while the value of the hedge instruments will decline. FHN enters into interest rate contracts (potentially including swaps, swaptions, and mortgage forward purchase contracts) to hedge against the effects of changes in fair value of its MSR. Substantially all capitalized MSR are hedged for economic purposes.

FHN utilizes 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 14 Derivatives (Continued)

The following table summarizes FHN s derivatives associated with legacy mortgage servicing activities for the three months ended March 31, 2013 and 2012:

(Dollars in thousands)	Notional	Assets	Liabilities	Gains/(Losses) Three Months Ended March 31, 2013
Retained Interests Hedging				
Hedging Instruments:				
Forwards and Futures	$ 124,000	$ 162	$	$ (411)
Interest Rate Swaps and Swaptions	$ 735,000	$ 1,956	$ 215	$ 735
Hedged Items:				
Mortgage Servicing Rights	N/A	$ 106,329	N/A	$ 1,177
Other Retained Interests	N/A	$ 16,454	N/A	$ 481

(Dollars in thousands)	Notional	Assets	Liabilities	Gains/(Losses) Three Months Ended March 31, 2012
Retained Interests Hedging				
Hedging Instruments:				
Forwards and Futures	$ 2,361,000	$ 25,200	$ 1,155	$ (1,311)
Interest Rate Swaps and Swaptions	$ 2,420,000	$ 9,713	$ 30,443	$ 4,384
Hedged Items:				
Mortgage Servicing Rights	N/A	$ 139,672	N/A	$ 5,031
Other Retained Interests	N/A	$ 24,610	N/A	$ 960

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 $68.0 million and $99.1 million for the three months ended March 31, 2013 and 2012, respectively. Total revenues are inclusive of both derivative and non-derivative financial instruments, and are included in Capital markets noninterest income.

The following table summarizes FHN s derivatives associated with capital markets trading activities as of March 31, 2013 and 2012:

	March 31, 2013		
(Dollars in thousands)	Notional	Assets	Liabilities
Customer Interest Rate Contracts	$ 1,477,632	$ 119,866	$ 1,327
Offsetting Upstream Interest Rate Contracts	1,477,632	1,327	119,866
Option Contracts Purchased	2,500	5	
Option Contracts Written	2,500		2
Forwards and Futures Purchased	5,786,940	7,541	8,199
Forwards and Futures Sold	5,923,867	8,090	8,381

	March 31, 2012		
(Dollars in thousands)	**Notional**	**Assets**	**Liabilities**
Customer Interest Rate Contracts	$ 1,502,356	$ 113,429	$ 2,749
Offsetting Upstream Interest Rate Contracts	1,502,356	2,749	113,429
Forwards and Futures Purchased	4,222,885	2,737	4,716
Forwards and Futures Sold	4,557,546	4,454	4,667

Note 14 Derivatives (Continued)

Interest Rate Risk Management

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

FHN has entered into pay floating, receive fixed interest rate swaps to hedge the interest rate risk of certain term borrowings totaling $904.0 million on both March 31, 2013 and 2012. These swaps have been accounted for as fair value hedges under the shortcut method. The balance sheet amount of these swaps was $60.5 million and $92.6 million in Derivative assets on March 31, 2013 and 2012, respectively.

FHN has designated a derivative transaction in a hedging strategy to manage interest rate risk on its $500 million noncallable senior debt maturing in December 2015. This derivative qualifies for hedge accounting under ASC 815-20 using the long-haul method. FHN entered into a pay floating, receive fixed interest rate swap to hedge the interest rate risk on this debt. The balance sheet amount of this swap was $24.6 million and $25.4 million in Derivative assets as of March 31, 2013 and 2012, respectively. There was no ineffectiveness related to this hedge.

FHN designates derivative transactions in hedging strategies to manage interest rate risk on subordinated debt related to its trust preferred securities. These qualify for hedge accounting under ASC 815-20 using the long-haul method. FHN hedges the interest rate risk of the subordinated debt totaling $200 million using pay, floating, receive fixed interest rate swaps. The balance sheet amount of these swaps was $7.4 million and $1.2 million in Derivative liabilities on March 31, 2013 and 2012, respectively. There was no ineffectiveness related to these hedges. In April and October 2012, the counterparty called the swaps associated with the $200 million of subordinated debt. FHN discontinued hedge accounting and the cumulative basis adjustments to the associated subordinated debt are being amortized as an adjustment to interest expense over its remaining term. FHN entered into a new interest rate swap to hedge the interest rate risk associated with this debt. The swap qualifies for hedge accounting using the long-haul method.

The following tables summarize FHN s derivatives associated with interest rate risk management activities for the three months ended March 31, 2013 and 2012:

(Dollars in thousands)	Notional	Assets	Liabilities	Gains/(Losses) Three Months Ended March 31, 2013
Customer Interest Rate Contracts Hedging				
Hedging Instruments and Hedged Items:				
Customer Interest Rate Contracts (a)	$ 925,608	$ 49,941	$ 330	$ (5,313)
Offsetting Upstream Interest Rate Contracts (a)	$ 925,608	$ 330	$ 50,741	$ 5,713
Debt Hedging				
Hedging Instruments:				
Interest Rate Swaps (b)	$ 1,604,000	$ 85,114	$ 7,427	$ (17,574)
Hedged Items:				
Term Borrowings (b)	N/A	N/A	$ 1,604,000(c)	$ 17,574(d)

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Note 14 Derivatives (Continued)

(Dollars in thousands)	**Notional**	**Assets**	**Liabilities**	**Gains/(Losses) Three Months Ended March 31, 2012**
Customer Interest Rate Contracts Hedging				
Hedging Instruments and Hedged Items:				
Customer Interest Rate Contracts (a)	$ 1,000,992	$ 63,749	$ 362	$ (5,789)
Offsetting Upstream Interest Rate Contracts (a)	$ 1,000,992	$ 362	$ 65,449	$ 6,189
Debt Hedging				
Hedging Instruments:				
Interest Rate Swaps (b)	$ 1,604,000	$ 117,944	$ 1,236	$ (10,231)
Hedged Items:				
Term Borrowings (b)	N/A	N/A	$ 1,604,000(c)	$ 10,231(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 $21.5 million and $196.3 million as of March 31, 2013 and 2012, respectively, which have an initial fixed rate term of five years before conversion to a floating rate. FHN has entered into pay fixed, receive floating interest rate swaps to hedge the interest rate risk associated with this initial five-year term. These hedge relationships qualify as fair value hedges under ASC 815-20. The impact of these swaps was $1.5 million and $7.0 million in Derivative liabilities on the Consolidated Condensed Statements of Condition as of March 31, 2013 and 2012, respectively. Interest paid or received for these swaps was recognized as an adjustment of the interest income of the assets whose risk is being hedged. Basis adjustments remaining at the end of the hedge term are being amortized as an adjustment to interest income over the remaining life of the loans. Gains or losses are included in Other income and commissions on the Consolidated Condensed Statements of Income.

The following tables summarize FHN s derivative activities associated with held-to-maturity trust preferred loans for the three months ended March 31, 2013 and 2012:

(Dollars in thousands)	**Notional**	**Assets**	**Liabilities**	**Gains/(Losses) Three Months Ended March 31, 2013**
Loan Portfolio Hedging				
Hedging Instruments:				
Interest Rate Swaps	$ 21,500	N/A	$ 1,456	$ 587
Hedged Items:				
Trust Preferred Loans (a)	N/A	$ 21,500(b)	N/A	$ (587)(c)

(Dollars in thousands)	**Notional**	**Assets**	**Liabilities**	**Gains/(Losses) Three Months Ended March 31, 2012**
Loan Portfolio Hedging				
Hedging Instruments:				
Interest Rate Swaps	$ 196,250	N/A	$ 7,017	$ 1,792
Hedged Items:				
Trust Preferred Loans (a)	N/A	$ 196,250(b)	N/A	$ (1,790)(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 March 31, 2013, the derivative liabilities associated with the sales of Visa Class B shares were $2.1 million compared to $2.9 million as of March 31, 2012. See the Visa Matters section of Note 9 Contingencies and Other Disclosures for more information regarding FHN s Visa shares.

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Note 14 Derivatives (Continued)

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 March 31, 2013 and 2012, these loans were valued at $.6 million and $.7 million, respectively. As of March 31, 2013 and 2012, the balance sheet amount and the gains/losses associated with these derivatives were not material.

Master Netting and Similar Arrangements

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

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

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

Interest rate derivatives with larger financial institutions 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 (increase), FHN and/or FTBNA could request the posting (counterparty request the release) of additional 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 $210.1 million of assets and $156.4 million of liabilities on March 31, 2013, and $243.9 million of assets and $172.9 million of liabilities on March 31, 2012. As of March 31, 2013 and 2012, FHN had received collateral of $255.3 million and $278.6 million and posted collateral of $153.9 million and $175.3 million, respectively, in the normal course of business related to these agreements.

Certain agreements 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 $208.6 million of assets and $35.8 million of liabilities on March 31, 2013, and $242.2 million of assets and $37.5 million of liabilities on March 31, 2012. As of March 31, 2013 and 2012, FHN had received collateral of $255.3 million and $278.6 million and posted collateral of $37.8 million and $40.8 million, respectively, in the normal course of business related to these contracts.

Capital Markets buys and sells various types of securities for its customers. When these securities settle on a delayed basis, they are considered forward contracts, and are generally not subject to master netting agreements. Forwards purchased and sold through banking activities typically consist of mortgage to be announced (TBA) trades for which FHN utilizes 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.

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Note 14 Derivatives (Continued)

The following table provides a detail of derivative assets and collateral received as presented on the Consolidated Condensed Statements of Condition as of March 31:

(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)	Gross amounts not offset in the Statement of Condition: Derivative liabilities available for offset	Collateral Received	Net amount
Derivative assets:						
2013 (b)	**$ 258,534**	**$**	**$ 258,534**	**$ (22,582)**	**$ (234,562)**	**$ 1,390**
2012 (b)	333,146		333,146	(46,301)	(265,428)	21,417

(a) Included in Derivative Assets on the Consolidated Condensed Statements of Condition. As of March 31, 2013 and 2012, $15.8 million and $7.2 million, respectively, of derivative assets (primarily capital markets forward contracts) have been excluded from these tables because they are generally not subject to master netting or similar agreements.

(b) 2013 is comprised entirely of interest rate derivative contracts. 2012 includes $307.9 million of interest rate derivative contracts and $25.2 million of forwards and futures contracts.

The following table provides a detail of derivative liabilities and collateral pledged as presented on the Consolidated Condensed Statements of Condition as of March 31:

(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)	Gross amounts not offset in the Statement of Condition: Derivative assets available for offset	Collateral pledged	Net amount
Derivative liabilities:						
2013 (b)	**$ 181,362**	**$**	**$ 181,362**	**$ (22,582)**	**$ (153,870)**	**$ 4,910**
2012 (b)	221,840		221,840	(46,301)	(170,153)	5,386

(a) Included in Derivative Liabilities on the Consolidated Condensed Statements of Condition. As of March 31, 2013 and 2012, $18.6 million and $12.3 million, respectively, of derivative liabilities (primarily capital markets forward contracts) have been excluded from these tables because they are generally not subject to master netting or similar agreements.

(b) 2013 is comprised entirely of interest rate derivative contracts. 2012 includes $220.7 million of interest rate derivative contracts and $1.1 million of forwards and futures contracts.

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Note 15 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 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 March 31:

(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	Gross amounts not offset in the Statement of Condition: Offsetting securities sold under agreements to repurchase	Securities collateral (not recognized on FHN s Statement of Condition)	Net amount
Securities purchased under agreements to resell:						
2013	**$ 732,696**	**$**	**$ 732,696**	**$ (2,196)**	**$ (723,195)**	**$ 7,305**
2012	595,973		595,973	(1,583)	(588,752)	5,638

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 March 31:

(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	Gross amounts not offset in the Statement of Condition: Offsetting securities purchased under agreements to resell	Securities Collateral	Net amount
Securities sold under agreements to repurchase:						
2013	**$ 488,010**	**$**	**$ 488,010**	**$ (2,196)**	**$ (485,766)**	**$ 48**
2012	313,765		313,765	(1,583)	(312,104)	78

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Note 16 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 16 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 March 31, 2013:

	March 31, 2013			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Trading securities capital markets:				
U.S. treasuries	$	$ 99,618	$	$ 99,618
Government agency issued MBS		385,351		385,351
Government agency issued CMO		283,932		283,932
Other U.S. government agencies		195,051		195,051
States and municipalities		21,141		21,141
Corporate and other debt		396,186	5	396,191
Equity, mutual funds, and other		8		8
Total trading securities capital markets		1,381,287	5	1,381,292
Trading securities mortgage banking				
Principal only			5,293	5,293
Interest only			11,161	11,161
Total trading securities mortgage banking			16,454	16,454
Loans held-for-sale			232,684	232,684
Securities available for sale:				
U.S. treasuries		39,994		39,994
Government agency issued MBS		1,065,551		1,065,551
Government agency issued CMO		1,849,353		1,849,353
Other U.S. government agencies			3,276	3,276
States and municipalities		13,755	1,500	15,255
Venture capital			4,300	4,300
Equity, mutual funds, and other	14,996			14,996
Total securities available-for-sale	14,996	2,968,653	9,076	2,992,725
Mortgage servicing rights			109,102	109,102
Other assets:				
Deferred compensation assets	22,785			22,785
Derivatives, forwards and futures	15,793			15,793
Derivatives, interest rate contracts		258,539		258,539
Total other assets	38,578	258,539		297,117
Total assets	$ 53,574	$ 4,608,479	$ 367,321	$ 5,029,374
Trading liabilities capital markets:				
U.S. treasuries	$	$ 434,119	$	$ 434,119
Government agency issued MBS		26,121		26,121
Government agency issued CMO		24,986		24,986

Other U.S. government agencies		50,547		50,547
Corporate and other debt		245,533		245,533
Total trading liabilities capital markets		781,306		781,306
Other short-term borrowings			10,984	10,984
Other liabilities:				
Derivatives, forwards and futures	16,580			16,580
Derivatives, interest rate contracts		181,364		181,364
Derivatives, other		5	2,050	2,055
Total other liabilities	16,580	181,369	2,050	199,999
Total liabilities	$ 16,580	$ 962,675	$ 13,034	$ 992,289

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Note 16 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 March 31, 2012:

	March 31, 2012			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Trading securities capital markets:				
U.S. treasuries	$	$ 106,317	$	$ 106,317
Government agency issued MBS		435,924		435,924
Government agency issued CMO		190,244		190,244
Other U.S. government agencies		183,718		183,718
States and municipalities		33,481		33,481
Corporate and other debt		263,298	5	263,303
Equity, mutual funds, and other		444		444
Total trading securities capital markets		1,213,426	5	1,213,431
Trading securities mortgage banking				
Principal only		7,229		7,229
Interest only			17,381	17,381
Total trading securities mortgage banking		7,229	17,381	24,610
Loans held-for-sale		8,555	214,603	223,158
Securities available for sale:				
U.S. treasuries		40,037		40,037
Government agency issued MBS		1,427,029		1,427,029
Government agency issued CMO		1,572,836		1,572,836
Other U.S. government agencies		9,453	5,094	14,547
States and municipalities		16,570	1,500	18,070
Corporate and other debt	527			527
Venture capital			12,179	12,179
Equity, mutual funds, and other	13,267			13,267
Total securities available-for-sale	13,794	3,065,925	18,773	3,098,492
Mortgage servicing rights			142,956	142,956
Other assets:				
Deferred compensation assets	24,102			24,102
Derivatives, forwards and futures	32,391			32,391
Derivatives, interest rate contracts		307,946		307,946
Total other assets	56,493	307,946		364,439
Total assets	$ 70,287	$ 4,603,081	$ 393,718	$ 5,067,086
Trading liabilities capital markets:				
U.S. treasuries	$	$ 445,381	$	$ 445,381
Other U.S. government agencies		1,822		1,822
States and municipalities		181		181
Corporate and other debt		120,088		120,088

Other		99		99
Total trading liabilities capital markets		567,571		567,571
Other short-term borrowings			15,073	15,073
Other liabilities:				
Derivatives, forwards and futures	10,538			10,538
Derivatives, interest rate contracts		220,686		220,686
Derivatives, other		4	2,960	2,964
Total other liabilities	10,538	220,690	2,960	234,188
Total liabilities	$ 10,538	$ 788,261	$ 18,033	$ 816,832

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Note 16 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 March 31, 2013 and 2012, on a recurring basis are summarized as follows:

	Three Months Ended March 31, 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	921	175			833	(186)	172
Other comprehensive income			(37)				
Purchases		18,467					
Issuances							
Sales							
Settlements	(2,454)	(4,228)	(440)		(6,042)	311	
Net transfers into/(out of) Level 3		(2,824)(c)					
Balance on March 31, 2013	$ 16,459	$ 232,684	$ 4,776	$ 4,300	$ 109,102	$ (2,050)	$ (10,984)
Net unrealized gains/(losses) included in net income	$ 431(a)	$ 175(a)	$	$ (b)	$ 925(a)	$ (186)(d)	$ 172(a)

	Three Months Ended March 31, 2012						
			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, 2012	$ 18,059	$ 210,487	$ 7,262	$ 12,179	$ 144,069	$ (11,820)	$ (14,833)
Total net gains/(losses) included in:							
Net income	1,878	872			4,471	(742)	(240)
Other comprehensive income			(166)				
Purchases		11,027					
Issuances							
Sales							
Settlements	(2,551)	(5,754)	(502)		(5,584)	9,602	
Net transfers into/(out of) Level 3		(2,029)(c)					
Balance on March 31, 2012	$ 17,386	$ 214,603	$ 6,594	$ 12,179	$ 142,956	$ (2,960)	$ (15,073)
Net unrealized gains/(losses) included in net income	$ 1,406(a)	$ 872(a)	$	$ (b)	$ 5,213(a)	$ (742)(d)	$ (240)(a)

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

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

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Note 16 Fair Value of Assets & Liabilities (Continued)

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

Nonrecurring Fair Value Measurements

From time to time, FHN may be required to measure certain other financial assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of LOCOM accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis which were still held on the balance sheet at March 31, 2013, and 2012, respectively, the following tables provide the level of valuation assumptions used to determine each adjustment, the related carrying value, and the fair value adjustments recorded during the respective periods.

	Carrying value at March 31, 2013				Three Months Ended March 31, 2013
(Dollars in thousands)	Level 1	Level 2	Level 3	Total	Net gains/(losses)
Loans held-for-sale SBAs	$	$ 8,156	$	$ 8,156	$
Loans held-for-sale first mortgages			11,633	11,633	84
Loans, net of unearned income (a)			125,223	125,223	(206)
Real estate acquired by foreclosure (b)			32,655	32,655	(1,018)
Other assets (c)			74,109	74,109	(1,609)
					$ (2,749)

	Carrying value at March 31, 2012				Three Months Ended March 31, 2012
(Dollars in thousands)	Level 1	Level 2	Level 3	Total	Net gains/(losses)
Loans held-for-sale SBAs	$	$ 73,255	$	$ 73,255	$ 4
Loans held-for-sale first mortgages			11,206	11,206	768
Loans, net of unearned income (a)			120,938	120,938	(11,387)
Real estate acquired by foreclosure (b)			59,132	59,132	(5,225)
Other assets (c)			86,794	86,794	(1,986)
					$ (17,826)

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

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

(c) Represents tax credit investments.

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

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Note 16 Fair Value of Assets & Liabilities (Continued)

Level 3 Measurements

The following table provides information regarding the unobservable inputs utilized in determining the fair value of level 3 recurring and non-recurring measurements as of March 31, 2013 and 2012:

(Dollars in Thousands)

Level 3 Class	Fair Value at March 31, 2013	Valuation Techniques	Unobservable Input	Values Utilized
Trading securities mortgage	$ 16,454	Discounted cash flow	(a)	(a)
Loans held-for-sale mortgages	244,317	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	109,102	Discounted cash flow	(a)	(a)
Other short-term borrowings	10,984	Discounted cash flow	(b)	(b)
Derivative liabilities, other	2,050	Discounted cash flow	Visa covered litigation resolution amount	$4.4 billion - $5.0 billion
			Probability of resolution scenarios	10%-60%
			Time until resolution	6 - 18 months
Loans, net of unearned income (c)	125,223	Appraisals from comparable properties	Marketability adjustments for specific properties	0% - 10% of appraisal
		Other collateral valuations	Borrowing base certificates	20% - 50% of gross value
			Financial Statements/Auction Values	0% - 25% of reported value
Real estate acquired by foreclosure (d)	32,655	Appraisals from comparable properties	Adjustment for value changes since appraisal	0% - 10% of appraisal
Other assets (e)	74,109	Discounted cash flow	Adjustments to current sales yields for specific properties	0% - 15% adjustment to yield
		Appraisals from comparable properties	Marketability adjustments for specific properties	0% - 25% of appraisal

(a) The unobservable inputs for Principal-only and Interest-only trading securities and MSR are discussed in Note 12 Loan Sales and Securitizations.
(b) The inputs and associated ranges for Other short-term borrowings mirror those of the related MSR.
(c) Represents carrying value of loans for which adjustments are required to be based on the appraised value of the collateral. Write-downs on these loans are recognized as part of provision.

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

(e) Represents tax credit investments.

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Note 16 Fair Value of Assets & Liabilities (Continued)

(Dollars in Thousands)

Level 3 Class	Fair Value at March 31, 2012	Valuation Techniques	Unobservable Input	Values Utilized
Interest only trading securities	$ 17,381	Discounted cash flow	(a)	(a)
Loans held-for-sale mortgages	225,809	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	12,179	Recent purchase offers	Adjustment for preferences in equity tranches	0% - 10% discount
		Recent capitalization transactions	Adjustment for preferences in equity tranches	0% - 10% discount
Mortgage servicing rights	142,956	Discounted cash flow	(a)	(a)
Other short-term borrowings	15,073	Discounted cash flow	(b)	(b)
Derivative liabilities, other	2,960	Discounted cash flow	Visa covered litigation resolution amount	$4.3 billion - $5.1 billion
			Probability of resolution scenarios	10% - 30%
			Time until resolution	3 - 12 months
Loans, net of unearned income (c)	120,938	Appraisals from comparable properties	Adjustment for value changes since appraisal	0% - 15% of appraisal
		Other collateral valuations	Borrowing base certificates	20% - 50% of gross value
			Financial Statements/Auction Values	0% - 25% of reported value
Real estate acquired by foreclosure (d)	59,132	Appraisals from comparable properties	Adjustment for value changes since appraisal	0% - 10% of appraisal
Other assets (e)	86,794	Discounted cash flow	Adjustments to current sales yields for specific properties	0% - 15% adjustment to yield
		Appraisals from comparable properties	Marketability adjustments for specific properties	0% - 25% of appraisal

(a) The unobservable inputs for Interest-only trading securities and MSR are discussed in Note 12 Loan Sales and Securitizations.
(b) The inputs and associated ranges for Other short-term borrowings mirror those of the related MSR.
(c) Represents carrying value of loans for which adjustments are required to be based on the appraised value of the collateral. Write-downs on these loans are recognized as part of provision.
(d) Represents the fair value of foreclosed properties that were measured subsequent to their initial classification as foreclosed assets. Balance excludes foreclosed real estate related to government insured mortgages.
(e) Represents tax credit investments.

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

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

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

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Note 16 Fair Value of Assets & Liabilities (Continued)

value measurements for the derivative liabilities. Additionally, FHN performs a probability weighted multiple resolution scenario to calculate the estimated fair value of these derivative liabilities. Assignment of higher (lower) probabilities to the larger potential resolution scenarios would result in an increase (decrease) in the estimated fair value of the derivative liabilities. The valuation inputs and process are discussed with senior and executive management when significant events affecting the estimate of fair value occur. Inputs are compared to information obtained from the public issuances and filings of Visa, Inc. as well as public information released by other participants in the applicable litigation matters.

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

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

Fair Value Option

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

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

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

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Note 16 Fair Value of Assets & Liabilities (Continued)

The following tables reflect the differences between the fair value carrying amount of mortgages 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.

	March 31, 2013		
(Dollars in thousands)	Fair value carrying amount	Aggregate unpaid principal	Fair value carrying amount less aggregate unpaid principal
Loans held-for-sale reported at fair value:			
Total loans	$ 232,684	$ 367,952	$ (135,268)
Nonaccrual loans	61,868	130,874	(69,006)
Loans 90 days or more past due and still accruing	8,179	18,370	(10,191)

	March 31, 2012		
(Dollars in thousands)	Fair value carrying amount	Aggregate unpaid principal	Fair value carrying amount less aggregate unpaid principal
Loans held-for-sale reported at fair value:			
Total loans	$ 223,158	$ 310,837	$ (87,679)
Nonaccrual loans	44,313	96,820	(52,507)
Loans 90 days or more past due and still accruing	8,702	19,062	(10,360)

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 March 31	
(Dollars in thousands)	**2013**	2012
Changes in fair value included in net income:		
Mortgage banking noninterest income		
Loans held-for-sale	**$ 175**	$ 872
Other short-term borrowings	**172**	(240)

For the three months ended March 31, 2013, and 2012, the amounts for loans held-for-sale include a $1.9 million gain and a of $1.1 million loss, respectively, included in pretax earnings that are attributable to changes in instrument-specific credit risk. The portion of the fair value adjustments related to credit risk was determined based on both a quality adjustment for delinquencies and the full credit spread on the non-conforming loans. Interest income on mortgage loans held-for-sale measured at fair value is calculated based on the note rate of the loan and is recorded in the interest income section of the Consolidated Condensed Statements of Income as interest on loans held-for-sale**.**