FIRST HORIZON NATIONAL CORP
Form 10-Q
May 09, 2006
FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

(Mark one)
(X) QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

OR

( )TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from______ to______

Commission file number 001-15185

CIK number 0000036966

FIRST HORIZON NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(901) 523-4444

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year,

if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No___

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

x Large accelerated filer ____ Accelerated filer ____ Non-accelerated filer

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

Yes ___ No x
APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock, $.625 par value	123,230,240
Class	Outstanding on March 31, 2006

FIRST HORIZON NATIONAL CORPORATION

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PART I.

FINANCIAL INFORMATION

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This financial information reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the interim periods presented. On March 1, 2006, FHN sold its national merchant processing business. This divestiture was accounted for as a discontinued operation, and accordingly, current and prior periods were adjusted to exclude the impact of merchant operations from the results of continuing operations. Additionally, FHN adopted SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123-R) in first quarter 2006 and retroactively applied the provisions of the standard. Accordingly, results for periods prior to 2006 have been adjusted to reflect expensing of share-based compensation.

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CONSOLIDATED CONDENSED STATEMENTS OF CONDITION	**First Horizon National Corporation**		
	March 31		December 31
(Dollars in thousands)(Unaudited)	**2006**	2005	2005
Assets:			
Cash and due from banks	**$ 887,539**	$ 770,844	$ 945,547
Federal funds sold and securities purchased under agreements to resell	**1,347,577**	1,598,995	1,485,199
Total cash and cash equivalents	**2,235,116**	2,369,839	2,430,746
Investment in bank time deposits	**25,319**	10,731	10,687
Trading securities	**2,508,615**	1,826,595	2,133,428
Loans held for sale	**3,604,010**	5,277,158	4,435,343
Securities available for sale	**2,944,443**	2,899,474	2,912,103
Securities held to maturity (fair value of $388 on March 31, 2006; $454 on March 31, 2005; and $390 on December 31, 2005)	**383**	442	383
Loans, net of unearned income	**21,186,991**	17,183,781	20,600,922
Less: Allowance for loan losses	**195,011**	164,195	189,705
Total net loans	**20,991,980**	17,019,586	20,411,217
Mortgage servicing rights, net	**1,475,448**	1,135,645	1,314,629
Goodwill	**281,475**	260,517	281,440
Other intangible assets, net	**76,666**	78,104	76,647
Capital markets receivables	**858,072**	2,435,505	511,508
Premises and equipment, net	**422,346**	377,887	408,539
Real estate acquired by foreclosure	**48,959**	25,695	27,410
Discontinued assets	**56,712**	126,213	163,545
Other assets	**1,771,431**	1,314,032	1,461,436
Total assets	**$ 37,300,975**	$ 35,157,423	$ 36,579,061
Liabilities and shareholders' equity:			
Deposits:			
Checking interest and money market	**$ 4,834,547**	$ 4,338,516	$ 4,425,664
Savings	**287,894**	298,958	279,408
Certificates of deposit under $100,000 and	**2,692,046**	2,145,312	2,478,946

other time			
Certificates of deposit $100,000 and more	**8,228,543**	10,781,020	10,931,695
Interest-bearing	**16,043,030**	17,563,806	18,115,713
Noninterest-bearing	**5,474,017**	5,444,485	5,201,844
Total deposits	**21,517,047**	23,008,291	23,317,557
Federal funds purchased and securities sold under agreements to repurchase	**4,337,243**	2,788,158	3,735,742
Trading liabilities	**766,479**	924,027	793,638
Commercial paper and other short-term borrowings	**749,979**	967,701	802,017
Term borrowings	**4,299,539**	2,591,354	3,437,643
Other collateralized borrowings	**299,800**	-	-
Total long-term debt	**4,599,339**	2,591,354	3,437,643
Capital markets payables	**941,911**	1,283,766	591,404
Discontinued liabilities	**233,402**	77,926	122,026
Other liabilities	**1,460,693**	1,095,542	1,136,221
Total liabilities	**34,606,093**	32,736,765	33,936,248
Preferred stock of subsidiary	**295,274**	295,858	295,274
Shareholders' equity			
Preferred stock - no par value (5,000,000 shares authorized, but unissued)	**-**	-	-
Common stock - $.625 par value (shares authorized - 400,000,000; shares issued and outstanding - 123,230,240 on March 31, 2006; 124,131,336 on March 31, 2005; and 126,222,327 on December 31, 2005)	**77,019**	77,582	78,889
Capital surplus	**269,564**	331,779	404,964
Undivided profits	**2,065,285**	1,751,618	1,905,930
Accumulated other comprehensive loss, net	**(12,260)**	(36,179)	(42,244)
Total shareholders' equity	**2,399,608**	2,124,800	2,347,539
Total liabilities and shareholders' equity	**$ 37,300,975**	$ 35,157,423	$ 36,579,061

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

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	First Horizon National Corporation	
	Three Months Ended March 31	
(Dollars in thousands except per share data)(Unaudited)	**2006**	2005

Interest income:		
Interest and fees on loans	**$ 363,483**	$ 231,558
Interest on investment securities	**35,855**	29,703
Interest on loans held for sale	**76,342**	79,085
Interest on trading securities	**38,515**	33,649
Interest on other earning assets	**19,174**	10,881
Total interest income	**533,369**	384,876
Interest expense:		
Interest on deposits:		
Savings	**105**	77
Checking interest and money market account	**20,792**	11,206
Certificates of deposit under $100,000 and other time	**25,338**	17,172
Certificates of deposit $100,000 and more	**119,296**	64,782
Interest on trading liabilities	**18,347**	16,807
Interest on short-term borrowings	**56,244**	26,600
Interest on long-term debt	**47,526**	20,785
Total interest expense	**287,648**	157,429
Net interest income	**245,721**	227,447
Provision for loan losses	**17,799**	13,109
Net interest income after provision for loan losses	**227,922**	214,338
Noninterest income:		
Mortgage banking	**88,815**	118,763
Capital markets	**92,858**	95,162
Deposit transactions and cash management	**38,023**	33,255
Insurance commissions	**14,686**	14,749
Revenue from loan sales and securitizations	**11,357**	13,234
Trust services and investment management	**10,657**	11,164
Equity securities losses, net	**(1,003)**	(66)
Debt securities losses, net	**(79,278)**	-
All other income and commissions	**29,629**	36,617
Total noninterest income	**205,744**	322,878
Adjusted gross income after provision for loan losses	**433,666**	537,216
Noninterest expense:		
Employee compensation, incentives and benefits	**260,141**	240,297
Occupancy	**30,102**	24,011
Operations services	**17,440**	16,445
Equipment rentals, depreciation and maintenance	**20,264**	17,485
Communications and courier	**14,912**	12,468
Amortization of intangible assets	**2,888**	2,536
All other expense	**97,468**	71,295
Total noninterest expense	**443,215**	384,537
Pre-tax (loss)/income	**(9,549)**	152,679
(Benefit)/provision for income taxes	**(12,959)**	49,864
Income from continuing operations	**3,410**	102,815
Income from discontinued operations, net of tax	**210,273**	3,015
Income before cumulative effect of changes in accounting principle	**213,683**	105,830
Cumulative effect of changes in accounting principle, net of tax	**1,345**	-
Net income	**$ 215,028**	$ 105,830
Earnings per common share from continuing operations	**$ .03**	$ .82
Earnings per common share from discontinued operations, net of tax	**1.67**	.03
Earnings per common share from cumulative effect of changes in accounting principle, net of tax	**.01**	-
Earnings per common share (Note 8)	**$ 1.71**	$ .85
Diluted earnings per common share from continuing operations	**$ .03**	$ .80
Diluted earnings per common share from discontinued operations, net of tax	**1.63**	.03
	.01	-

Diluted earnings per common share from cumulative effect of changes in accounting principle, net of tax		
Diluted earnings per common share (Note 8)	**$ 1.67**	$ .83
Weighted average common shares (Note 8)	**125,489**	124,717
Diluted average common shares (Note 8)	**129,100**	128,032

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 SHAREHOLDERS' EQUITY **First Horizon National Corporation**

(Dollars in thousands)(Unaudited)	**2006**	2005
Balance, January 1	**$ 2,347,539**	$ 2,040,983
Adjustment to reflect change in accounting for employee share-based compensation	-	33,151
Net income	**215,028**	105,830
Other comprehensive income:		
Unrealized fair value adjustments, net of tax		
Cash flow hedges	**613**	-
Securities available for sale	**29,371**	(26,251)
Comprehensive income	**245,012**	79,579
Cash dividends declared	**(55,673)**	(53,315)
Common stock repurchased	**(159,734)**	(488)
Common stock issued for:		
Stock options and restricted stock	**21,795**	13,061
Acquisitions	**185**	3,895
Change in tax benefit from incentive plans	**3,592**	(22)
Adjustment to reflect change in accounting for employee stock option forfeitures	**(1,780)**	-
Stock-based compensation expense	**(1,328)**	7,958
Other	-	(2)
Balance, March 31	**$ 2,399,608**	$ 2,124,800

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 CASH FLOWS **First Horizon National Corporation**

		Three Months Ended March 31	
(Dollars in thousands)(Unaudited)		**2006**	2005
Operating Activities	Net income	**$ 215,028**	$ 105,830
	Adjustments to reconcile net income to net cash provided/(used) by operating activities:		
	Provision for loan losses	**17,799**	13,109
	Provision for deferred income tax/(deferred income tax benefit)	**12,826**	(322)
	Depreciation and amortization of premises and equipment	**12,983**	12,261
	Amortization and impairment of mortgage servicing rights	**-**	58,713
	Amortization of intangible assets	**3,113**	3,362
	Net other amortization and accretion	**25,625**	20,675
	Decrease in derivatives, net	**35,236**	114,235
	Market value adjustment on mortgage servicing rights	**(95,175)**	-
	Provision for foreclosure reserve	**7,051**	2,588
	Cumulative effect of changes in accounting principle	**(1,345)**	-
	Gain on divestiture	**(208,488)**	-
	Stock-based compensation (benefit)/expense	**(1,328)**	6,359
	Excess tax (benefit)/expense from stock-based compensation arrangements	**(3,592)**	22
	Equity securities losses, net	**1,003**	66
	Debt securities losses, net	**79,278**	-
	Net losses on disposal of fixed assets	**983**	168
	Net (increase)/decrease in:		
	Trading securities	**(375,187)**	(149,404)
	Loans held for sale	**830,448**	(86,305)
	Capital markets receivables	**(346,564)**	(2,159,208)
	Interest receivable	**(2,138)**	(27,123)
	Other assets	**(305,913)**	(222,184)
	Net increase/(decrease) in:		
	Capital markets payables	**350,584**	893,443
	Interest payable	**12,064**	35,369
	Other liabilities	**295,908**	(56,130)
	Trading liabilities	**(27,159)**	497,684
	Total adjustments	**318,012**	(1,042,622)
	Net cash provided/(used) by operating activities	**533,040**	(936,792)
Investing Activities	Available for sale securities:		
	Sales	**2,208,878**	21,630
	Maturities	**198,781**	98,023
	Purchases	**(2,470,650)**	(382,915)
	Premises and equipment:		
	Purchases	**(27,443)**	(17,691)
	Net increase in loans	**(663,817)**	(772,187)
	Net increase in investment in bank time deposits	**(14,632)**	(5,402)
	Proceeds from divestitures, net of cash and cash equivalents	**421,737**	-
	Acquisitions, net of cash and cash equivalents acquired	**(186)**	(843,543)
	Net cash used by investing activities	**(347,332)**	(1,902,085)
Financing Activities	Common stock:		
	Exercise of stock options	**21,275**	13,043
	Cash dividends paid	**(56,680)**	(53,020)
	Repurchase of shares	**(159,734)**	(488)
	Excess tax benefit/(expense) from stock-based compensation arrangements	**3,592**	(22)
	Long-term debt:		
	Issuance	**1,179,137**	-
	Payments	**(113)**	(69)
	Issuance of preferred stock of subsidiary	**-**	295,400
	Net increase/(decrease) in:		
	Deposits	**(1,919,152)**	3,290,286
	Short-term borrowings	**549,463**	345,658
	Net cash (used)/provided by financing activities	**(382,212)**	3,890,788
	Net (decrease)/increase in cash and cash equivalents	**(196,504)**	1,051,911
	Cash and cash equivalents at beginning of period	**2,431,620**	1,320,499
	Cash and cash equivalents at end of period	**2,235,116**	2,372,410

Cash and cash equivalents from discontinued operations at beginning of period, included above	**$ 874**	$ 1,115
Cash and cash equivalents from discontinued operations at end of period, included above	**-**	2,571
Total interest paid	**275,147**	121,896
Total income taxes paid	**1,329**	3,290

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

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Note 1 - Financial Information

The unaudited interim consolidated financial statements of First Horizon National Corporation (FHN), including its subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States of America and follow general practices within the industries in which it operates. This preparation requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions are based on information available as of the date of the financial statements and could differ from actual results. In the opinion of management, all necessary adjustments have been made for a fair presentation of financial position and results of operations for the periods presented. The operating results for the interim 2006 periods are not necessarily indicative of the results that may be expected going forward. For further information, refer to the audited consolidated financial statements in the 2005 Annual Report to shareholders.

Real Estate Acquired by Foreclosure. Prior to 2006, properties acquired by foreclosure in compliance with HUD servicing guidelines were classified as receivables in Other assets on the Consolidated Condensed Statements of Condition. Beginning in 2006, these loans are included in Real estate acquired by foreclosure and are carried at the estimated amount of the underlying government insurance or guarantee. On March 31, 2006, FHN had $19.9 million in these foreclosed properties. All other real estate acquired by foreclosure consists of properties that have been acquired in satisfaction of debt. These properties are carried at the lower of the outstanding loan amount or estimated fair value less estimated cost to sell the real estate. Losses arising at foreclosure are charged to the appropriate reserve. Required developmental costs associated with foreclosed property under construction are capitalized and included in determining the estimated net realizable value of the property, which is reviewed periodically, and any write-downs are charged against current earnings.

Loans Held for Sale and Securitization and Residual Interests. FHN's mortgage lenders originate first-lien mortgage loans (the warehouse) for the purpose of selling them in the secondary market, primarily through proprietary and agency securitizations, and to a lesser extent through loan sales. In addition, FHN evaluates its liquidity position in conjunction with determining its ability and intent to hold loans for the foreseeable future and sells certain of the second-lien mortgages and home equity lines of credit (HELOC) it produces in the secondary market through securitizations and loan sales. Loan securitizations involve the transfer of the loans to qualifying special purposes entities (QSPE) that are not subject to consolidation in accordance with Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS No. 140). FHN generally retains the right to service the transferred loans.

Loans held for sale include loans originated or purchased for resale, together with mortgage loans previously sold which loans may be unilaterally called by FHN. Loans held for sale are recorded at the lower of aggregate cost or fair value. The carrying value of loans held for sale is net of deferred origination fees and costs. Net origination fees and costs are deferred on loans held for sale and included in the basis of the loans in calculating gains and losses upon sale. Also included in the lower of cost or fair value analysis are the estimated costs and fair values of first-lien mortgage loan commitments. The cost basis of loans qualifying for fair value hedge accounting under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), is adjusted to reflect changes in fair value. Gains and losses realized from the sale of these assets, whether sold directly or through securitization, and adjustments to fair value are included in noninterest income.

Mortgage loans insured by the Federal Housing Administration (FHA) and mortgage loans guaranteed by the Veterans Administration (VA) are generally securitized through GNMA. Conforming conventional loans are generally securitized through government-sponsored enterprises (GSE) such as the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). In addition, FHN has completed proprietary securitizations of nonconforming first-lien and second-lien mortgages and HELOC, which do not conform to the requirements for sale or securitization through government agencies or GSE. Most of these securitizations are accounted for as sales; those that do not qualify for sale treatment are accounted for as financing arrangements.

Interests retained from the sales include mortgage servicing rights (MSR) and various financial assets. Prior to 2006, all of these retained interests were initially valued by allocating the total cost basis of the loan between the security or loan sold and the retained interests based on their relative fair values at the time of securitization or sale. The retained interests, other than MSR, were carried at fair value as a component of trading securities on the Consolidated Condensed Statements of Condition, with realized and unrealized gains and losses included in current earnings as a component of noninterest income on the Consolidated Condensed Statements of Income. With the adoption of SFAS No. 156, MSR are initially valued at fair value, and the remaining retained interests are 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 securitization or sale. All retained interests, including MSR, are carried at fair value. The financial assets retained are included as a component of trading securities on the Consolidated Condensed Statements of Condition, with realized and unrealized gains and losses included in current earnings as a component of noninterest income on the Consolidated Condensed Statements of Income.

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Note 1 - Financial Information (continued)

Financial assets retained in a securitization may include certificated residual interests, excess interest (structured as interest-only strips), interest-only strips, principal-only strips, or subordinated bonds. Residual interests represent rights to receive earnings to the extent of excess income generated by the underlying loans. Excess interest represents rights to receive interest from serviced assets that exceed contractually specified rates. Principal-only strips are principal cash flow tranches and interest-only strips are interest cash flow tranches. Subordinated bonds are bonds with junior priority. All financial assets retained from a securitization are recognized on the balance sheet in trading securities at fair value.

The fair values of the certificated residual interests, the excess interest, and the interest-only strips are determined using market prices from closely comparable assets such as MSR that are tested against prices determined using a valuation model that calculates the present value of estimated future cash flows. To determine the fair value of the principal-only strips, FHN uses the market prices from comparable assets such as publicly traded FNMA trust principal-only strips that are adjusted to reflect the relative risk difference between readily marketable

securities and privately issued securities. The fair value of subordinated bonds is determined using a spread to an interpolated Treasury rate, which is supplied by broker dealers. The fair value of these retained interests typically changes based on changes in the discount rate and differences between modeled prepayment speeds and credit losses and actual experience.

On January 1, 2006, FHN began initially recognizing all classes of MSR at fair value and elected to irrevocably continue application of fair value accounting to its MSR. Classes of MSR are determined in accordance with FHN s risk management practices and market inputs used in determining the fair value of the servicing asset. Since sales of MSR tend to occur in private transactions and the precise terms and conditions of the sales are typically not readily available, there is a limited market to refer to in determining the fair value of MSR. As such, like other participants in the mortgage banking business, FHN relies primarily on a discounted cash flow model to estimate the fair value of its MSR. This model calculates estimated fair value of the MSR using predominant risk characteristics of MSR such as interest rates, type of product (fixed vs.

variable), age (new, seasoned, or moderate), agency type and other factors. FHN uses assumptions in the model that it believes are comparable to those used by brokers and other service providers. FHN also periodically compares its estimates of fair value and assumptions to brokers, service providers, and recent market activity and against its own experience.

Prior to 2006, MSR were initially valued by allocating the total carrying value of the loan between the loan, MSR and other retained interests based on their relative fair values, and were thereafter valued at the lower of cost or fair value. MSR were amortized over the period of and in proportion to the estimated net servicing revenues. The cost basis of MSR qualifying for SFAS No. 133 fair value hedge accounting was adjusted to reflect changes in fair value. MSR were periodically evaluated for impairment. Impairment occurred when the current fair value of the servicing right was less than its recorded value. A quarterly value impairment analysis was performed using a discounted cash flow analysis which was disaggregated by strata representing predominant risk characteristics, including fixed rate and adjustable loans. Impairment, if any, was recognized through a valuation allowance for individual strata. However, if the impairment was determined to be other than temporary, a direct write-off of the asset was made. With the adoption of SFAS No. 156, MSR are valued at fair value, both initially and prospectively; impairment tests are no longer performed.

Equity Compensation. FHN accounts for its employee stock-based compensation plans using the grant date fair value of an award to determine the expense to be recognized over the life of the award. For awards with service vesting criteria, expense is recognized using the straight-line method over the requisite service period (generally the vesting period) and is adjusted for anticipated forfeitures. For awards vesting based on a performance measure, anticipated performance is projected to determine the number of awards expected to vest, and the corresponding aggregate expense is adjusted to reflect the elapsed portion of the performance period. The fair value of equity awards with cash payout requirements, as well as awards for which fair value cannot be estimated at grant date, are remeasured each reporting period through vesting date.

For all stock option awards granted prior to adoption of SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123-R), FHN permits vesting of the option to continue after retirement. To account for these stock option awards, FHN uses the nominal vesting period approach. Under the nominal vesting period approach, awards granted to employees near retirement eligibility are expensed over the option s normal vesting period until an employee s actual retirement date, at which point all remaining unamortized compensation expense is immediately accelerated. Awards granted after the adoption of SFAS No. 123-R will be amortized using the nonsubstantive vesting methodology. The nonsubstantive vesting methodology requires that expense associated with options that continue vesting after retirement be recognized over a period ending no later than an employee s retirement eligibility date. Had FHN followed the nonsubstantive vesting period method for all awards previously granted, the effect of the change in expense attribution on earnings and per share amounts would have been negligible.

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Note 1 - Financial Information (continued)

Accounting Changes. Effective January 1, 2006, FHN elected early adoption of Statement of Financial Accounting Standards No. 156, Accounting for Servicing of Financial Assets (SFAS No. 156). This amendment to SFAS No. 140 requires servicing rights be initially measured at fair value. Subsequently, companies are permitted to elect, on a class-by-class basis, either fair value or amortized cost

accounting for their servicing rights. FHN elected fair value accounting for its MSR. Accordingly, FHN recognized the cumulative effect of a change in accounting principle totaling $.2 million, net of tax, representing the excess of the fair value of the servicing asset over the recorded value on January 1, 2006.

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

FHN adopted SFAS No. 123-R as of January 1, 2006. SFAS No. 123-R requires recognition of expense over the requisite service period for awards of share-based compensation to employees. The grant date fair value of an award will be used to measure the compensation expense to be recognized over the life of the award. For unvested awards granted prior to the adoption of SFAS No. 123-R, the fair values utilized equal the values developed in preparation of the disclosures required under the original SFAS No. 123. Compensation expense recognized after adoption of SFAS No. 123-R will incorporate an estimate of awards expected to ultimately vest, which requires estimation of forfeitures as well as projections related to the satisfaction of performance conditions that determine vesting. As permitted by SFAS No. 123-R, FHN retroactively applied the provisions of SFAS No. 123-R to its prior period financial statements. The Consolidated Condensed Statements of Income were revised to incorporate expenses previously presented in the footnote disclosures. The Consolidated Condensed Statements of Condition were revised to reflect the effects of including equity compensation expense in those prior periods. Additionally, all deferred compensation balances were reclassified within equity to capital surplus. Since FHN s prior disclosures included forfeitures as they occurred, a cumulative effect adjustment, as required by SFAS No. 123-R, of $1.1 million net of tax, was made for unvested awards that are not expected to vest due to anticipated forfeiture. The following table summarizes the effect of adoption of SFAS No. 123-R on the income statement for the three months ended March 31, 2006 and 2005:

	Three Months Ended March 31	
(Dollars in thousands except per share data)	**2006**	2005
Income before income taxes	**$(2,976)**	$(5,391)
Income from continuing operations	**(1,812)**	(3,379)
Net income	**(708)**	(3,379)
Earnings per common share from continuing operations	**$ (.01)**	$ (.03)
Earnings per common share	**(.01)**	(.03)
Diluted earnings per common share from continuing operations	**(.01)**	(.02)
Diluted earnings per common share	**(.01)**	(.02)

Effective December 31, 2005, FHN adopted FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47). FIN 47 requires recognition of a liability at the time of acquisition or construction for assets that will require certain remediation expenditures when the assets are removed from service. FIN 47 clarified that future expenses to remove asbestos from buildings should be estimated and accrued as a liability at the time of acquisition with an offset to increase the cost of the associated structure. FHN currently owns certain buildings that contain asbestos. As a result of adopting FIN 47, FHN recognized a cumulative effect of a change in accounting principle equaling $3.1 million, net of tax. FHN increased the value of its recorded tangible assets by $4.5 million at the time it recognized an associated conditional retirement obligation in the amount of $9.4 million.

Effective January 1, 2005, FHN adopted AICPA Statement of Position 03-3, Accounting for Loans or Certain Debt Securities Acquired in a Transfer (SOP 03-3), which modifies the accounting for certain loans that are acquired with evidence of deterioration in credit quality since origination. SOP 03-3 does not apply to loans recorded at fair value or to mortgage loans classified as held for sale. SOP 03-3 limits the yield that may be accreted on applicable loans to the excess of the cash flows expected, at acquisition, to be collected over the investor s

Note 1 - Financial Information (continued)

initial investment in the loan. SOP 03-3 also prohibits the carrying over of valuation allowances on applicable loans. The impact of adopting SOP 03-3 was immaterial to the results of operations.

In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (FSP FAS 115-1), which supercedes the previously deferred recognition guidance of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-1). FSP FAS 115-1 was effective January 1, 2006, and references previously existing GAAP. Therefore, adoption of FSP FAS 115-1 did not impact FHN s accounting for other-than-temporary impairment of investments.

Accounting Changes Issued but Not Currently Effective. In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments , which permits fair value remeasurement for any hybrid financial instruments that contain an embedded derivative that otherwise would require bifurcation. Additionally, SFAS No. 155 clarifies the accounting guidance for beneficial interests in securitizations. SFAS No. 155 is effective for fiscal years beginning after September 15, 2006. Since FHN accounts for its beneficial interests in securitizations as trading securities, the adoption of SFAS No. 155 is not expected to have a significant impact on the results of operations.

Note 2 - Acquisitions/Divestitures

On March 1, 2006, FHN sold substantially all the assets of its national merchant processing business conducted primarily through First Horizon Merchant Services, Inc. (FHMS) and Global Card Services, Inc. The sale was to NOVA Information Systems (NOVA), a wholly-owned subsidiary of U.S. Bancorp. This transaction resulted in a pre-tax gain of approximately $340 million. In addition, a supplement to the purchase price may be paid to FHN if certain performance goals are achieved during a period following closing. This divestiture was accounted for as a discontinued operation, and prior periods were adjusted to exclude the impact of merchant operations from the results of continuing operations. In conjunction with the sale, FHN entered into a transitional service agreement with NOVA to provide or continue on-going services such as telecommunications, back-end processing and disaster recovery until NOVA converts the operations to their systems. On March 31, 2006, discontinued assets and liabilities primarily consist of operating account balances remaining from operations prior to the sale, operating receivables due from NOVA from post-sale activity and federal tax liabilities recognized on the gain on the sale.

On December 9, 2005, First Tennessee Bank National Association (FTBNA) sold three financial centers in Dyersburg, Tennessee, to First South Bank. This transaction resulted in a divestiture gain of $7.0 million. Immediately preceding the sale, the financial centers had loans of approximately $80 million and deposits of approximately $70 million.

On August 26, 2005, FHN acquired West Metro Financial Services Inc. (West Metro), a Georgia bank holding company. West Metro was merged with and into FHN. At the same time West Metro s subsidiary, First National Bank West Metro, with total assets of approximately $135 million, loans of approximately $115 million, and deposits of approximately $120 million, was merged with and into FTBNA. Total consideration of $32 million, consisting of approximately $11 million in cash and $21 million in FHN shares (approximately 518,000 shares of common stock), exceeded the estimated fair value of tangible assets and liabilities acquired by approximately $16 million. Intangible assets totaling approximately $3 million have been identified and are being amortized over their expected useful lives. The acquisition was immaterial to FHN.

On April 1, 2005, FTBNA acquired substantially all of the assets of MSAver Resources, L.L.C. of Overland Park, Kansas, a national leader in administering health savings accounts. The acquisition was immaterial to FHN.

On March 1, 2005, First Horizon Home Loan Corporation, a subsidiary of FTBNA, acquired Greenwich Home Mortgage Corporation of Cedar Knolls, New Jersey, for an initial payment of approximately $7.8 million in cash and FHN common stock. Net assets purchased, combined with the operating performance of the acquired business, will impact future payments owed to the sellers. The acquisition was immaterial to FHN. In first quarter 2006 an additional payment of approximately $ .4 million in cash and FHN common stock was made.

On January 7, 2005, FHN s capital markets division, FTN Financial, completed the acquisition of the assets and operations of the fixed income business of Spear, Leeds & Kellogg (SLK), a division of Goldman Sachs & Co. for approximately $150.0 million in cash. Total consideration paid exceeded the estimated fair value of tangible and identified intangible assets and liabilities acquired by approximately $97 million. Intangible assets totaling approximately $55 million have been identified and are being amortized over their expected useful lives. The acquisition was immaterial to FHN.

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

Note 3 - Loans

The composition of the loan portfolio is detailed below:

	March 31		December 31
(Dollars in thousands)	**2006**	2005	2005
Commercial:			
Commercial, financial and industrial	**$ 6,538,798**	$ 5,781,307	$ 6,578,117
Real estate commercial	**1,232,021**	1,030,052	1,213,052
Real estate construction	**2,277,825**	1,427,955	2,108,121
Retail:			
Real estate residential	**8,486,345**	7,358,940	8,357,143

Real estate construction	**2,001,916**	1,190,155	1,925,060
Other retail	**161,617**	160,457	168,413
Credit card receivables	**194,908**	234,915	251,016
Real estate loans pledged against other collateralized borrowings	**293,561**	-	-
Loans, net of unearned income	**21,186,991**	17,183,781	20,600,922
Allowance for loan losses	**195,011**	164,195	189,705
Total net loans	**$ 20,991,980**	$ 17,019,586	$ 20,411,217

The following table presents information concerning nonperforming loans:

	March 31		December 31
(Dollars in thousands)	**2006**	2005	2005
Impaired loans	**$ 45,912**	$ 34,701	$ 36,635
Other nonaccrual loans*	**19,420**	14,723	15,624
Total nonperforming loans	**$ 65,332**	$ 49,424	$ 52,259

* On March 31, 2006 and 2005, and on December 31, 2005, other nonaccrual loans included $16.0 million, $9.3 million, and $11.5 million, respectively, of loans held for sale.

On March 31, 2006, $3.8 billion of real estate residential qualifying loans were pledged to secure potential Federal Home Loan Bank borrowings. Qualifying loans are comprised of residential mortgage loans secured by first and second liens and home equity lines of credit. In addition, $5.6 billion of commercial, financial and industrial loans were pledged to secure potential discount window borrowings from the Federal Reserve Bank.

Nonperforming loans consist of loans which management has identified as impaired, other nonaccrual loans and loans which have been restructured. On March 31, 2006 and 2005, there were no outstanding commitments to advance additional funds to customers whose loans had been restructured. The following table presents nonperforming loans on March 31:

	Three Months Ended March 31	
(Dollars in thousands)	**2006**	2005
Total interest on impaired loans	**$ 179**	$ 284
Average balance of impaired loans	**43,806**	36,072

An allowance for loan losses is maintained for all impaired loans. Activity in the allowance for loan losses related to non-impaired loans, impaired loans, and for the total allowance for the three months ended March 31, 2006 and 2005, is summarized as follows:

(Dollars in thousands)	Non-impaired	Impaired	Total
Balance on December 31, 2004	$ 147,672	$ 10,487	$ 158,159
Provision for loan losses	12,951	158	13,109
Charge-offs	(9,189)	(1,833)	(11,022)
Recoveries	2,572	1,377	3,949
Net charge-offs	(6,617)	(456)	(7,073)
Balance on March 31, 2005	$ 154,006	$ 10,189	$ 164,195
Balance on December 31, 2005	$ 179,635	$ 10,070	$ 189,705
Provision for loan losses	14,849	2,950	17,799
Adjustment due to divestiture	(1,195)	-	(1,195)
Charge-offs	(12,381)	(2,410)	(14,791)

Recoveries	2,666	827	3,493
Net charge-offs	(9,715)	(1,583)	(11,298)
Balance on March 31, 2006	**$ 183,574**	**$ 11,437**	**$ 195,011**

Note 4 - Mortgage Servicing Rights

On January 1, 2006, FHN elected early adoption of SFAS No. 156, which requires servicing rights be initially measured at fair value. Subsequently, companies are permitted to elect, on a class-by-class basis, either fair value or amortized cost accounting for their servicing rights. Accordingly, FHN began initially recognizing all its classes of mortgage servicing rights (MSR) at fair value and elected to irrevocably continue application of fair value accounting to all its classes of MSR. Classes of MSR are determined in accordance with FHN s risk management practices and market inputs used in determining the fair value of the servicing asset. FHN recognized the cumulative effect of a change in accounting principle totaling $.2 million, net of tax, representing the excess of the fair value of the servicing asset over the recorded value on January 1, 2006. The balance of MSR included on the Consolidated Condensed Statements of Condition represents the rights to service approximately $96.3 billion of mortgage loans on March 31, 2006, for which a servicing right has been capitalized. Following is a summary of changes in capitalized MSR for first quarter 2006:

(Dollars in thousands)	First Liens	Second Liens	HELOC
Fair value on January 1, 2006	$1,318,219	$ 5,470	$14,384
Addition of mortgage servicing rights	95,624	6,360	1,971
Reductions due to loan payments	(58,641)	(797)	(2,317)
Changes in fair value due to:			
Changes in current market interest rates	94,249	49	506
Other changes in fair value	21	(20)	370
Fair value on March 31, 2006	**$1,449,472**	**$11,062**	**$14,914**

In 2005 these amounts were included at the lower of cost, net of accumulated amortization, or fair value. The cost basis of MSR qualifying for SFAS No. 133 fair value hedge accounting was adjusted to reflect changes in fair value. MSR were amortized over the period of and in proportion to the estimated net servicing revenues. MSR were periodically evaluated for impairment. Impairment occurred when the current fair value of the servicing right was less than its recorded value. A quarterly value impairment analysis was performed using a discounted cash flow analysis which was disaggregated by strata representing predominant risk characteristics, including fixed and adjustable rate loans. Impairment, if any, was recognized through a valuation allowance for individual strata. However, if the impairment was determined to be other than temporary, a direct write-off of the asset was made. With the adoption of SFAS No. 156, MSR are valued at fair value, both initially and prospectively; impairment tests are no longer performed. Following is a summary of changes in capitalized MSR for first quarter 2005:

(Dollars in thousands)	
Balance on December 31, 2004	$1,036,458
Addition of mortgage servicing rights	85,339
Amortization	(48,338)
Market value adjustments	72,561
Permanent impairment	(11,632)
Decrease in valuation allowance	1,257
Balance on March 31, 2005	$1,135,645

MSR on March 31, 2005, had an estimated market value of approximately $1,149.3 million. This balance represents the rights to service approximately $85.1 billion of mortgage loans on March 31, 2005, for which a servicing right has been capitalized. On March 31, 2005, valuation allowances due to temporary impairment of $3.0 million were required. Following is a summary of changes in the valuation allowance for first quarter 2005:

(Dollars in thousands)	
Balance on December 31, 2004	$ 4,231
Permanent impairment	(11,632)
Servicing valuation provision	10,375
Balance on March 31, 2005	$ 2,974

Since sales of MSR tend to occur in private transactions and the precise terms and conditions of the sales are typically not readily available, there is a limited market to refer to in determining the fair value of MSR. As such, like other participants in the mortgage banking business,

Note 4 - Mortgage Servicing Rights (continued)

FHN relies primarily on a discounted cash flow model to estimate the fair value of its MSR. This model calculates estimated fair value of the MSR using predominant risk characteristics of MSR, such as interest rates, type of product (fixed vs. variable), age (new, seasoned, or moderate), agency type and other factors. FHN uses assumptions in the model that it believes are comparable to those used by brokers and other service providers. FHN also periodically compares its estimates of fair value and assumptions to brokers, service providers, and recent market activity and against its own experience.

The sensitivity of the current fair value of all retained or purchased interests for MSR to immediate 10 percent and 20 percent adverse changes in assumptions on March 31, 2006, are as follows:

(Dollars in thousands except for annual cost to service)	First Liens	Second Liens	HELOC
March 31, 2006			
Fair value of retained interests	$1,449,472	$11,062	$14,914
Weighted average life (in years)	6.8	2.9	2.0
Annual prepayment rate	11.3%	30.0%	49.0%
Impact on fair value of 10% adverse change	$ (53,989)	$ (537)	$ (913)
Impact on fair value of 20% adverse change	(104,182)	(1,017)	(1,738)
Annual discount rate on servicing cash flows	10.5%	14.0%	18.0%
Impact on fair value of 10% adverse change	$ (59,670)	$ (297)	$ (342)
Impact on fair value of 20% adverse change	(114,684)	(580)	(666)

Annual cost to service (per loan) *	$ 55	$ 50	$ 50
Impact on fair value of 10% adverse change	(14,988)	(226)	(237)
Impact on fair value of 20% adverse change	(26,976)	(451)	(474)
Annual earnings on escrow	4.6%	2.5%	4.4%
Impact on fair value of 10% adverse change	$ (34,541)	$ (176)	$ (600)
Impact on fair value of 20% adverse change	(68,331)	(351)	(1,199)

* The annual cost to service includes an incremental cost to service delinquent loans. Historically, this fair value sensitivity disclosure has not included this incremental cost. The annual cost to service loans without the incremental cost to service delinquent loans was $49 as of March 31, 2006.

FHN uses assumptions and estimates in determining the fair value allocated to retained interests at the time of initial securitization or sale. The key economic assumptions used to measure the fair value of the MSR at the date of securitization or loan sale were as follows:

	First Liens	Second Liens	HELOC
March 31, 2006			
Weighted average life (in years)	6.1-6.9	2.7-2.9	1.7-2.0
Annual prepayment rate	13.9%-15.9%	30%	45%-55%
Annual discount rate	9.9%-11.4%	14%	18%
Annual cost to service (per loan) *	$56-$57	$50	$50
Annual earnings on escrow	4.2%-4.6%	2.0%-4.6%	2.0%-4.4%

* The annual cost to service includes an incremental cost to service delinquent loans. Historically, the disclosure of annual cost to service assumptions has not included this incremental cost. The range of annual cost to service loans without the incremental cost to service delinquent loans was $49-$50 for MSR capitalized during first quarter 2006.

Note 5 - Intangible Assets

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

(Dollars in thousands)	Goodwill	Other Intangible Assets*
December 31, 2004	$160,067	$22,520
Amortization expense	-	(2,536)
Acquisitions**	100,450	58,120
March 31, 2005	$260,517	$78,104
December 31, 2005	$281,440	$76,647
Amortization expense	-	(2,888)
Acquisitions**	1,145	3,000

Divestitures	(1,110)	(93)
March 31, 2006	**$281,475**	**$ 76,666**

* Represents customer lists, acquired contracts, premium on purchased deposits, covenants not to compete
and assets related to the minimum pension liability.
** Preliminary purchase price allocations on acquisitions are based upon estimates of fair value and are
subject to change.
Certain previously reported amounts have been reclassified to agree with current presentation.

The gross carrying amount of other intangible assets subject to amortization is $141.9 million on March 31, 2006, net of $65.3 million of accumulated amortization. Estimated aggregate amortization expense for the remainder of 2006 is expected to be $7.8 million and is expected to be $9.8 million, $8.5 million, $6.8 million and $6.4 million for the twelve-month periods of 2007, 2008, 2009, and 2010 respectively.

The following is a summary of goodwill detailed by reportable segments for the three months ended March 31:

(Dollars in thousands)	Commercial Banking	Mortgage Banking	Capital Markets	Total
December 31, 2004	$ 87,208	$ 55,214	$ 17,645	$160,067
Acquisitions*	-	3,936	96,514	100,450
March 31, 2005	$ 87,208	$ 59,150	$114,159	$260,517
December 31, 2005	$104,781	$ 61,593	$115,066	$281,440
Acquisitions*	30	1,115	-	1,145
Divestitures	(1,110)	-	-	(1,110)
March 31, 2006	**$103,701**	**$ 62,708**	**$115,066**	**$281,475**

* Preliminary purchase price allocations on acquisitions are based upon estimates of fair value and are subject to change.
Certain previously reported amounts have been reclassified to agree with current presentation.

Note 6 Long-Term Debt

The following table presents information pertaining to long-term debt (debt with original maturities greater than one year) for FHN and its subsidiaries:

	March 31		December 31
(Dollars in thousands)	**2006**	2005	2005
First Tennessee Bank National Association:			
Subordinated notes (qualifies for total capital under the Risk-Based Capital guidelines):			
Matures on January 15, 2015 -- 5.05%	**$ 380,242**	$ 391,246	$ 392,279

Matures on May 15, 2013 -- 4.625%	**244,572**	252,065	251,135
Matures on December 1, 2008 -- 5.75%	**135,784**	137,358	136,847
Matures on April 1, 2008 -- 6.40%	**89,859**	89,789	89,841
Matures on April 1, 2016 -- 5.65%	**247,014**	-	-
Bank notes*	**1,504,674**	1,249,960	874,672
Extendible notes**			
Final maturity of November 17, 2010 -- 4.7425% on March 31, 2006, and 4.36% on December 31, 2005	**1,249,148**	-	1,249,110
Federal Home Loan Bank borrowings***	**4,297**	4,648	4,381
Other****	**-**	1,322	**-**
First Horizon National Corporation:			
Subordinated capital notes (qualifies for total capital under the Risk-Based Capital guidelines):			
Matures on May 15, 2013 -- 4.50%	**97,860**	100,882	100,478
Matured on November 15, 2005 -- 6.75%	**-**	22,881	**-**
Subordinated notes:			
Matures on January 6, 2027 -- 8.07%	**100,356**	100,332	99,737
Matures on April 15, 2034 -- 6.30%	**200,431**	195,637	193,878
FT Real Estate Securities Company, Inc.			
Cumulative preferred stock (qualifies for total capital under the Risk-Based Capital guidelines):			
Matures on March 31, 2031 -- 9.50%	**45,302**	45,234	45,285
First Horizon ABS Trust			
Other collateralized borrowings			
Matures on October 25, 2034--5.01%	**299,800**	-	-
Total	**$4,599,339**	$2,591,354	$3,437,643

* The bank notes were issued with variable interest rates and have remaining terms of 1 to 5 years. These bank notes had weighted average interest rates of 4.91 percent and 2.88 percent on March 31, 2006 and 2005, respectively and 4.66 percent on December 31, 2005.

** As of March 31, 2006, the extendible notes had a contractual maturity of April 17, 2007, but are extendible at the investors' option to the final maturity date of November 17, 2010.

*** The Federal Home Loan Bank (FHLB) borrowings were issued with fixed interest rates and have remaining terms of 3 to 23 years. These borrowings had weighted average interest rates of 3.36 percent and 3.53 percent on March 31, 2006 and 2005, respectively and 3.40 percent on December 31, 2005.

**** Other long-term debt was comprised of an unsecured obligation issued with a fixed interest rate of 5.00 percent on March 31, 2005.

Annual principal repayment requirements as of March 31, 2006, are as follows:

(Dollars in thousands)	
2006	$ 350,254
2007	1,400,338
2008	606,963
2009	220,321
2010	138
2011 and after	2,068,987

All subordinated notes are unsecured and are subordinate to other present and future senior indebtedness. FTBNA s subordinated notes and FHN s subordinated capital notes qualify as Tier 2 risk-based capital under the Office of the Comptroller of the Currency and Federal Reserve Board guidelines for assessing capital adequacy. Prior to February 2005, FTBNA had a bank note program under which the bank was able to borrow funds from time to time at maturities of 30 days to 30 years. This bank note program was terminated in connection with

Note 6 Long-Term Debt (continued)

the establishment of a new program. That termination did not affect any previously issued notes outstanding. In February 2005, FTBNA established a new bank note program providing additional liquidity of $5.0 billion. This bank note program provides FTBNA with a facility under which it may continuously issue and offer short- and medium-term unsecured notes. On March 31, 2006, $3.7 billion was available under current conditions through the bank note program.

In November 2005, FTBNA entered into a $3.0 billion floating rate extendible note program. The extendible note program provides FTBNA with a facility under which it may issue and offer unsecured and unsubordinated notes with initial maturities of thirteen months and final maturities of five years. On March 31, 2006, $1.7 billion was available under current conditions through the extendible note program.

Note 7 - Regulatory Capital

FHN is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on FHN's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines that involve quantitative measures of assets, liabilities and certain derivatives as calculated under regulatory accounting practices must be met. Capital amounts and classification are also subject to qualitative judgment by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require FHN to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets (leverage). Management believes, as of March 31, 2006, that FHN met all capital adequacy requirements to which it was subject.

The actual capital amounts and ratios of FHN and FTBNA are presented in the table below. In addition, FTBNA must also calculate its capital ratios after excluding financial subsidiaries as defined by the Gramm-Leach-Bliley Act of 1999. Based on this calculation FTBNA s Total Capital, Tier 1 Capital and Leverage ratios were 12.18 percent, 8.24 percent and 6.71 percent, respectively, on March 31, 2006, and were 12.35 percent, 8.73 percent and 6.95 percent, respectively, on March 31, 2005.

	First Horizon National Corporation		First Tennessee Bank National Association	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio
On March 31, 2006:				
Actual:				
Total Capital	$ 3,902,841	13.38%	$ 3,725,324	12.50%
Tier 1 Capital	2,558,302	8.77	2,480,785	8.33
Leverage	2,558,302	6.86	2,480,785	6.70
For Capital Adequacy Purposes:				
Total Capital	2,333,344	≥8.00	2,383,592	≥8.00
Tier 1 Capital	1,166,672	≥4.00	1,191,796	≥4.00
Leverage	1,492,581	≥4.00	1,481,261	≥4.00
To Be Well Capitalized Under Prompt Corrective Action Provisions:				
Total Capital			2,979,491	≥ 10.00
Tier 1 Capital			1,787,694	≥6.00
Leverage	-		1,851,576	≥5.00
On March 31, 2005:				
Actual:				
Total Capital	$ 3,433,186	13.34%	$ 3,307,677	12.61%
Tier 1 Capital	2,324,346	9.03	2,298,837	8.77
Leverage	2,324,346	6.90	2,298,837	6.87
For Capital Adequacy Purposes:				
Total Capital	2,058,937	≥8.00	2,097,716	≥8.00
Tier 1 Capital	1,029,468	≥4.00	1,048,858	≥4.00
Leverage	1,347,401	≥4.00	1,337,566	≥4.00
To Be Well Capitalized Under Prompt Corrective Action Provisions:				
Total Capital			2,622,145	≥ 10.00
Tier 1 Capital			1,573,287	≥6.00
Leverage	-		1,671,958	≥5.00

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

Note 8 - Earnings Per Share

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

(In thousands, except per share data)	Three Months Ended March 31 **2006**	2005
Net income from continuing operations	**$ 3,410**	$ 102,815
Income from discontinued operations, net of tax	**210,273**	3,015
Cumulative effect of changes in accounting principle, net of tax	**1,345**	-
Net income	**$ 215,028**	$ 105,830
Weighted average common shares	**125,489**	124,717
Effect of dilutive securities	**3,611**	3,315
Diluted average common shares	**129,100**	128,032
Earnings per common share:		
Net income from continuing operations	**$ .03**	$ .82
Income from discontinued operations, net of tax	**1.67**	.03
Cumulative effect of changes in accounting principle, net of tax	**.01**	-
Net income	**$ 1.71**	$ .85
Diluted earnings per common share:		
Net income from continuing operations	**$ .03**	$ .80
Income from discontinued operations, net of tax	**1.63**	.03
Cumulative effect of changes in accounting principle, net of tax	**.01**	-
Net income	**$ 1.67**	$ .83

Outstanding stock options of 5,656 and 3,014 with weighted average exercise prices of $42.76 and $45.46 per share as of March 31, 2006 and 2005, respectively, were not included in the computation of diluted earnings per common share because such shares would have had an antidilutive effect on earnings per common share.

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

On March 1, 2006, FHN purchased 4 million shares of its common stock to minimize the potentially dilutive effect of the merchant divestiture on future earnings per share. This share repurchase was accomplished through an accelerated share repurchase program for an initial purchase price of approximately $158 million in first quarter 2006. The final settlement, after the repurchase period, is expected to occur in second quarter 2006.

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Note 9 - Contingencies and Other Disclosures

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

In November 2000, a complaint was filed in state court in Jackson County, Missouri against FHN s subsidiary, First Horizon Home Loans. The case generally concerns the charging of certain loan origination fees, including fees permitted by Kansas law but allegedly restricted or not permitted by Missouri law, when First Horizon Home Loans or its predecessor, McGuire Mortgage Company, made certain second-lien mortgage loans. Among other relief, plaintiffs seek a refund of fees, a repayment and forgiveness of loan interest, prejudgment interest, punitive damages, and loan rescission. In response to pre-trial motions, the court has ruled that Missouri law governs the loan transactions and has certified a statewide class action involving approximately 4,000 loans. Discovery is ongoing and additional pre-trial motions are pending. Trial is currently scheduled for November 2006. FHN believes that it has meritorious defenses and intends to continue to protect its rights and defend this lawsuit vigorously, through trial and appeal, if necessary.

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 representation warranties for underwriting agreements, merger and acquisition agreements, loan sales, contractual commitments, and various other business transactions or arrangements. The extent of FHN s obligations under these agreements depends upon the occurrence of future events; therefore, it is not possible to estimate a maximum potential amount of payouts that could be required with such agreements.

First Horizon Home Loans services a first-lien mortgage loan portfolio of approximately $97.3 billion as of March 31, 2006, a significant portion of which is held by GNMA, FNMA, FHLMC or private security holders. In connection with its servicing activities, First Horizon Home Loans guarantees the receipt of the scheduled principal and interest payments on the underlying loans. In the event of customer non-performance on the loan, First Horizon Home Loans is obligated to make the payment to the security holder. Under the terms of the servicing agreements, First Horizon Home Loans can utilize payments received from other prepaid loans in order to make the security holder whole. In the event payments are ultimately made by First Horizon Home Loans to satisfy this obligation, for loans sold with no recourse, all funds are recoverable from the government agency at foreclosure sale.

First Horizon Home Loans is also subject to losses in its loan servicing portfolio due to loan foreclosures and other recourse obligations. Certain agencies have the authority to limit their repayment guarantees on foreclosed loans resulting in certain foreclosure costs being borne by servicers. In addition, First Horizon Home Loans has exposure on all loans sold with recourse. First Horizon Home Loans has various claims for reimbursement, repurchase obligations, and/or indemnification requests outstanding with government agencies or private investors. First Horizon Home Loans has evaluated all of its exposure under recourse obligations based on factors, which include loan delinquency status, foreclosure expectancy rates and claims outstanding. Accordingly, First Horizon Home Loans had an allowance for losses on the mortgage servicing portfolio of approximately $22.1 million and $16.5 million as of March 31, 2006 and 2005, respectively. First Horizon Home Loans has sold certain mortgage loans with an agreement to repurchase the loans upon default. As of March 31, 2006 and 2005, First Horizon Home Loans had single-family residential loans with outstanding balances of $150.6 million and $190.5 million, respectively that were sold on a recourse basis. For the single-family residential loans, in the event of borrower nonperformance, First Horizon Home Loans would assume losses to the extent they exceed the value of the collateral and private mortgage insurance, FHA insurance or VA guarantees. As of March 31, 2006 and 2005, the outstanding principal balance of loans sold with limited recourse and serviced by First Horizon Home Loans was $3.1 billion and $3.4 billion, respectively.

FHN has securitized and sold HELOC and second-lien mortgages which are held by private security holders, and on March 31, 2006, the outstanding principal balance of these loans was $555.8 million and $130.0 million, respectively. On March 31, 2005, the outstanding principal balance of securitized and sold HELOC and second-lien mortgages was $1.1 billion and $210.3 million, respectively. In connection with its servicing activities, FTBNA does not guarantee the receipt of the scheduled principal and interest payments on the underlying loans but does have residual interests of $57.2 million and $61.1 million on March 31, 2006 and 2005, respectively, which are available to make the security holder whole in the event of credit losses. FHN has projected expected credit losses in the valuation of the residual interest.

Note 10 Pension and Other Employee Benefits

Pension plan. FHN provides pension benefits to employees retiring under the provisions of a noncontributory, defined benefit pension plan. Employees of FHN s mortgage subsidiary and certain insurance subsidiaries are not covered by the pension plan. Pension benefits are based on years of service, average compensation near retirement and estimated social security benefits at age 65. The annual funding is based on an actuarially determined amount using the entry age cost method. FHN also maintains a nonqualified supplemental executive retirement plan that covers certain employees whose benefits under the pension plan have been limited under Tax Code Section 415 and Tax Code Section 401(a)(17), which limit compensation to $210,000 for purposes of benefit calculations. Compensation is defined in the same manner as it is under the pension plan. Participants receive the difference between the monthly pension payable, if tax code limits did not apply, and the actual pension payable. All benefits provided under this plan are unfunded and payments to plan participants are made by FHN.

Other employee benefits. FHN provides postretirement medical insurance to full-time employees retiring under the provisions of the FHN Pension Plan. The postretirement medical plan is contributory with retiree contributions adjusted annually. The plan is based on criteria that are a combination of the employee s age and years of service and utilizes a two-step approach. For any employee retiring on or after January 1, 1995, FHN contributes a fixed amount based on years of service and age at time of retirement. FHN s postretirement benefits include prescription drug benefits. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) introduces a prescription drug benefit under Medicare Part D as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. FSP FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, requires a plan sponsor to determine if benefits offered through a postretirement health care plan are actuarially equivalent to Medicare Part D. Plan benefits were determined to be actuarially equivalent in 2005.

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

	Pension Benefits		Postretirement Benefits	
(Dollars in thousands)	**2006**	2005	**2006**	2005
Components of net periodic benefit cost				
Service cost	**$ 4,520**	$ 3,945	**$ 83**	$ 199
Interest cost	**5,486**	5,318	**279**	438
Expected return on plan assets	**(8,945)**	(8,123)	**(421)**	(417)
Amortization of prior service cost/(benefit)	**211**	207	**(44)**	(44)
Recognized losses/(gains)	**1,769**	1,014	**(140)**	-
Amortization of transition obligation	**-**	-	**247**	247
Net periodic cost	**$ 3,041**	$ 2,361	**$ 4**	$ 423

FHN plans to contribute approximately $20 million to the pension plan in second quarter 2006, and does not anticipate making any further contributions to this plan during the remainder of 2006. FHN does not anticipate making a contribution to the other employee benefit plan in 2006.

Note 11 - Stock Option, Restricted Stock Incentive, and Dividend Reinvestment Plans

Stock option plans. FHN issues non-qualified stock options under various plans to employees, non-employee directors, and bank advisory board members. The plans provide for the issuance of FHN common stock at a price equal to its fair market value at the date of grant. However, if the grantee agreed to receive the options in lieu of compensation, the exercise price was less than the fair market value. The foregone compensation plus the exercise price equaled the fair market value of the stock on the date of grant. This deferral program was discontinued in 2005, and any options issued below market on the date of grant during 2005 were related to 2004 salary deferrals for employees and 2004 board compensation for directors. All options vest within 3 to 5 years and expire 7 years or 10 years from the date of grant, except for those options that were previously part of compensation deferral, which vest immediately or after 6 months and expire 20 years from the date of grant. After January 2, 2004, stock options granted that are part of the compensation deferral vest immediately or after 6 months and expire 10 years from the date of grant. There were 1,596,761 shares available for option or share grants on March 31, 2006.

The summary of stock option activity during quarter ended March 31, 2006, is shown below:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value *(thousands)*
January 1, 2006	20,289,455	$32.87		
Options granted	-	-		
Options exercised	(876,896)	25.58		
Options canceled	(193,148)	41.13		
March 31, 2006	**19,219,411**	**33.12**	**7.09**	$174,204
Options exercisable	14,169,967	$29.91	7.64	$168,354

The total intrinsic value of options exercised during the quarters ended March 31, 2006 and 2005, was $12.7 million and $7.6 million, respectively. As of March 31, 2006, there was $16.6 million of unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted-average period of 2.85 years. The following data summarizes information about stock options granted during quarters ended March 31:

	Number Granted	Weighted Average Fair Value per Option at Grant Date
2006:		
Options granted	N/A	N/A
2005:		
Options granted	87,302	$ 19.81

FHN used the Black-Scholes Option Pricing Model to estimate the fair value of stock options granted in the quarters ended March 31, 2006 and 2005, with the following assumptions:

	Three months ended March 31,	
	2006	2005
Expected dividend yield	N/A	3.98%
Expected lives of options granted	N/A	5.29 years
Expected volatility	N/A	21.65%
Risk-free interest rates	N/A	3.68%

Note 11 - Stock Option, Restricted Stock Incentive, and Dividend Reinvestment Plans (continued)

Expected lives of options granted are determined based on the vesting period, historical exercise patterns and contractual term of the options. Expected volatility is estimated using average of daily high and low stock prices, excluding swings in volatility caused by unique infrequent circumstances. Expected volatility assumptions are determined over the period of the expected lives of the options.

Restricted stock incentive plans. FHN has authorized the issuance of its common stock for awards to executive employees who have a significant impact on the profitability of FHN under a performance accelerated restricted stock program. The performance stock units vest only if predetermined performance measures are met. Additionally, one of the plans allows stock awards to be granted to non-employee directors upon approval by the board of directors. It has been the recent practice of the board to grant 8,000 shares of restricted stock to each new non-employee director upon election to the board, with restrictions lapsing at a rate of ten percent per year. FHN also grants restricted stock awards to management employees which typically vest over 3 and 4 years. The summary of restricted stock activity during the quarter ended March 31, 2006, is presented below:

	Share Units	Weighted average grant date fair value
Nonvested at January 1, 2006	1,228,282	$41.10
Share units granted	52,950	38.58
Share units vested	(8,522)	21.61
Share units canceled	(133,930)	41.97
Nonvested at March 31, 2006	**1,138,780**	**$41.03**

As of March 31, 2006, there was $14.4 million of unrecognized compensation cost related to nonvested restricted stock plans. That cost is expected to be recognized over a weighted-average period of 3.34 years. The total fair value of shares vested during the quarter ended March 31, 2006, was $.3 million. No restricted stock shares vested during the quarter ended March 31, 2005.

The board of directors approved amendments to the restricted stock plan during 1998 permitting deferral by participants of the receipt of restricted stock prior to the lapse of restrictions. Due to deferred compensation legislation passed in 2004, participants are no longer allowed to make voluntary deferral elections under the stock programs.

The compensation (benefit)/cost that has been included in income from continuing operations pertaining to both stock option and restricted stock plans was ($1.3) million and $6.4 million for the quarters ended March 31, 2006 and 2005, respectively. The corresponding total income tax (expense)/benefit recognized in the income statement was ($.5) million and $2.4 million for the quarters ended March 31, 2006 and 2005, respectively.

Consistent with Tennessee state law, only new shares may be utilized in connection with any issuance of FHN common stock which may be required as a result of share based compensation awards. FHN historically obtains authorization from the Board of Directors to repurchase any shares that may be issued at the time a plan is approved or amended. Repurchases are authorized to be made in the open market or through privately negotiated transactions and will be subject to market conditions, accumulation of excess equity, and prudent capital management. FHN does not currently expect to repurchase a material number of shares related to the plans during the next annual period.

Dividend reinvestment plan. The Dividend Reinvestment and Stock Purchase Plan (the Plan) authorizes the sale of FHN s common stock from shares acquired on the open market to shareholders who choose to invest all or a portion of their cash dividends and make optional cash payments of $25 to $10,000 per quarter without paying commissions. The price of shares purchased on the open market is the average price paid.

Note 12 Business Segment Information

FHN has four business segments, Retail/Commercial Banking, Mortgage Banking, Capital Markets and Corporate. The Retail/Commercial Banking segment offers financial products and services, including traditional lending and deposit taking, to retail and commercial customers. Additionally, Retail/Commercial Banking provides investments, insurance, financial planning, trust services and asset management, credit card, cash management, check clearing, and correspondent services. On March 1, 2006, FHN sold its national merchant processing business. The divestiture was accounted for as a discontinued operation which is included in the Retail/Commercial Banking segment. The Mortgage Banking segment consists of core mortgage banking elements including originations and servicing and the associated ancillary revenues related to these businesses. The Capital Markets segment consists of traditional capital markets securities activities, equity research and investment banking. The Corporate segment consists of unallocated corporate expenses, expense on subordinated debt issuances and preferred stock, bank-owned life insurance, unallocated interest income associated with excess equity, net impact of raising incremental capital, funds management and venture capital. Periodically, FHN adapts its segments to reflect changes in expense allocations between segments. In 2005, FHN adapted its segments to reflect the reclassification of certain trust preferred assets and related net interest income to the Capital Markets segment from Retail/Commercial Banking. Previously reported amounts have been reclassified to agree with current presentation. Effective January 1, 2006, FHN adopted SFAS No. 123-R and retroactively applied the provisions of the standard. Accordingly, results for prior periods have been adjusted to reflect expensing of share-based compensation.

Total revenue, expense and asset levels reflect those which are specifically identifiable or which are allocated based on an internal allocation method. Because the allocations are based on internally developed assignments and allocations, they are to an extent subjective. This assignment and allocation has been consistently applied for all periods presented. The following table reflects the amounts of consolidated revenue, expense, tax, and assets for each segment for the three months ended March 31:

	Three Months Ended March 31	
(Dollars in thousands)	**2006**	2005
Total Consolidated		
Net interest income	**$ 245,721**	$ 227,447
Provision for loan losses	**17,799**	13,109
Noninterest income	**205,744**	322,878
Noninterest expense	**443,215**	384,537
Pre-tax (loss)/income	**(9,549)**	152,679
(Benefit)/provision for income taxes	**(12,959)**	49,864
Income from continuing operations	**3,410**	102,815
Income from discontinued operations, net of tax	**210,273**	3,015
Income before cumulative effect	**213,683**	105,830
Cumulative effect of changes in accounting principle, net of tax	**1,345**	-
Net income	**$ 215,028**	$ 105,830
Average assets	**$ 37,689,523**	$ 34,091,441

Retail/Commercial Banking		
Net interest income	**$ 224,869**	$ 198,653
Provision for loan losses	**18,026**	13,069
Noninterest income	**106,493**	100,859
Noninterest expense	**215,555**	179,750
Pre-tax income	**97,781**	106,693
Provision for income taxes	**27,899**	33,857
Income from continuing operations	**69,882**	72,836
Income from discontinued operations, net of tax	**210,273**	3,015
Income before cumulative effect	**280,155**	75,851
Cumulative effect of changes in accounting principle, net of tax	**522**	-
Net income	**$ 280,677**	$ 75,851
Average assets	**$ 23,045,183**	$ 19,793,641

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

Note 12 Business Segment Information (continued)

	Three Months Ended March 31	
(Dollars in thousands)	**2006**	2005
Mortgage Banking		
Net interest income	**$ 25,415**	$ 33,248
Provision for loan losses	**(227)**	40
Noninterest income	**94,704**	122,575
Noninterest expense	**125,699**	109,900
Pre-tax (loss)/income	**(5,353)**	45,883
(Benefit)/provision for income taxes	**(2,114)**	16,458
(Loss)/income before cumulative effect	**(3,239)**	29,425
Cumulative effect of changes in accounting principle, net of tax	**414**	-
Net (loss)/ income	**$ (2,825)**	$ 29,425
Average assets	**$ 6,206,548**	$ 5,662,802
Capital Markets		
Net interest expense	**$ (5,563)**	$ (5,225)
Noninterest income	**98,903**	96,427
Noninterest expense	**86,379**	81,813
Pre-tax income	**6,961**	9,389
Provision for income taxes	**1,745**	4,049
Income before cumulative effect	**5,216**	5,340
	179	-

Cumulative effect of changes in accounting principle, net of tax		
Net income	**$ 5,395**	$ 5,340
Average assets	**$ 4,867,762**	$ 5,396,616
Corporate		
Net interest income	**$ 1,000**	$ 771
Noninterest (expense)/ income	**(94,356)**	3,017
Noninterest expense	**15,582**	13,074
Pre-tax loss		