FIRST HORIZON NATIONAL CORP
Form 10-Q
November 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from to

Commission File Number 001-15185

First Horizon National Corporation

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	**Outstanding on September 30, 2012**
Common Stock, $.625 par value	247,133,973

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FIRST HORIZON NATIONAL CORPORATION

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PART I.

FINANCIAL INFORMATION

Item 1. Financial Statements

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

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CONSOLIDATED CONDENSED STATEMENTS OF CONDITION

	First Horizon National Corporation		
	September 30		December 31
(Dollars in thousands, except restricted and share amounts)(Unaudited)	**2012**	2011	2011
Assets:			
Cash and due from banks (Restricted - $.6 million on September 30, 2012; $4.7 million on September 30, 2011; and $4.9 million on December 31, 2011)	**$ 355,978**	$ 339,895	$ 384,667
Federal funds sold and securities purchased under agreements to resell	**529,688**	719,400	443,588
Total cash and cash equivalents (Restricted - $.6 million on September 30, 2012; $4.7 million on September 30, 2011; and $4.9 million on December 31, 2011)	**885,666**	1,059,295	828,255
Interest-bearing cash	**440,916**	358,537	452,856
Trading securities	**1,204,366**	1,227,197	988,217
Loans held-for-sale	**410,550**	386,147	413,897
Securities available-for-sale (Note 3)	**3,123,629**	3,327,846	3,066,272
Loans, net of unearned income (Restricted - $.1 billion on September 30, 2012; $.7 billion on September 30, 2011; and $.6 billion on December 31, 2011) (Note 4)	**16,523,783**	16,241,402	16,397,127
Less: Allowance for loan losses (Restricted - $4.4 million on September 30, 2012; $32.4 million on September 30, 2011; and $31.8 million on December 31, 2011) (Note 4)	**281,744**	449,645	384,351
Total net loans (Restricted - $.1 billion on September 30, 2012; $.6 billion on September 30, 2011; and $.6 billion on December 31, 2011)	**16,242,039**	15,791,757	16,012,776
Mortgage servicing rights (Note 5)	**120,537**	150,803	144,069
Goodwill (Note 6)	**134,242**	133,659	133,659
Other intangible assets, net (Note 6)	**23,679**	27,243	26,243
Capital markets receivables	**791,190**	521,198	164,987
Premises and equipment, net	**305,346**	326,667	321,253
Real estate acquired by foreclosure	**70,779**	91,492	85,244
Other assets (Restricted - $1.9 million on September 30, 2012; $13.6 million on September 30, 2011; and $13.4 million on December 31, 2011)	**1,986,891**	2,169,628	2,151,656
Total assets (Restricted - $.1 billion on September 30, 2012; $.7 billion on September 30, 2011; and $.6 billion on December 31, 2011)	**$ 25,739,830**	$ 25,571,469	$ 24,789,384
Liabilities and equity:			
Deposits:			
Savings	**$ 6,608,534**	$ 6,467,377	$ 6,624,405
Time deposits	**1,063,380**	1,210,661	1,173,375
Other interest-bearing deposits	**3,468,367**	3,096,621	3,193,697
Certificates of deposit $100,000 and more	**518,717**	511,221	608,518
Interest-bearing	**11,658,998**	11,285,880	11,599,995
Noninterest-bearing	**4,569,113**	4,412,375	4,613,014
Total deposits	**16,228,111**	15,698,255	16,213,009
Federal funds purchased and securities sold under agreements to repurchase	**1,794,176**	2,101,953	1,887,052
Trading liabilities	**516,970**	471,120	347,285
Other short-term borrowings	**856,958**	621,998	172,550
Term borrowings (Restricted - $.1 billion on September 30, 2012; $.7 billion on September 30, 2011; and $.6 billion on December 31, 2011)	**2,263,238**	2,509,804	2,481,660

Capital markets payables	**574,201**	509,164	164,708
Other liabilities (Restricted - $- on September 30, 2012; $.1 million on September 30, 2011 and December 31, 2011)	**974,288**	915,945	838,483
Total liabilities (Restricted - $.1 billion on September 30, 2012; $.7 billion on September 30, 2011; and $.6 billion on December 31, 2011)	**23,207,942**	22,828,239	22,104,747
Equity:			
First Horizon National Corporation Shareholders Equity:			
Common stock - $.625 par value (shares authorized - 400,000,000; shares issued - 247,133,973 on September 30, 2012; 263,619,040 on September 30, 2011; and 257,468,092 on December 31, 2011)	**154,459**	164,762	160,918
Capital surplus	**1,517,488**	1,641,878	1,601,346
Undivided profits	**681,460**	724,977	757,364
Accumulated other comprehensive loss, net	**(116,684)**	(83,552)	(130,156)
Total First Horizon National Corporation Shareholders Equity	**2,236,723**	2,448,065	2,389,472
Noncontrolling interest	**295,165**	295,165	295,165
Total equity	**2,531,888**	2,743,230	2,684,637
Total liabilities and equity	**$ 25,739,830**	$ 25,571,469	$ 24,789,384

See accompanying notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	First Horizon National Corporation			
	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars and shares in thousands except per share data)(Unaudited)	**2012**	2011	**2012**	2011
Interest income:				
Interest and fees on loans	**$ 163,813**	$ 162,340	**$ 486,507**	$ 486,771
Interest on investment securities	**24,136**	30,007	**76,413**	90,449
Interest on loans held-for-sale	**3,808**	5,126	**11,174**	12,050
Interest on trading securities	**8,392**	10,765	**27,450**	32,834
Interest on other earning assets	**367**	122	**1,210**	618
Total interest income	**200,516**	208,360	**602,754**	622,722
Interest expense:				
Interest on deposits:				
Savings	**4,764**	6,773	**15,127**	21,042
Time deposits	**5,169**	7,096	**16,626**	22,911
Other interest-bearing deposits	**1,455**	1,650	**4,628**	4,841
Certificates of deposit $100,000 and more	**1,975**	2,328	**6,586**	7,650
Interest on trading liabilities	**2,556**	3,703	**7,914**	11,595
Interest on short-term borrowings	**1,443**	1,389	**3,958**	4,397
Interest on term borrowings	**9,689**	9,081	**29,846**	28,331
Total interest expense	**27,051**	32,020	**84,685**	100,767
Net interest income	**173,465**	176,340	**518,069**	521,955
Provision for loan losses	**40,000**	32,000	**63,000**	34,000
Net interest income after provision for loan losses	**133,465**	144,340	**455,069**	487,955
Noninterest income:				
Capital markets	**80,773**	99,557	**262,429**	267,535
Deposit transactions and cash management	**30,352**	35,701	**89,216**	102,706
Mortgage banking	**10,373**	12,751	**43,603**	72,578
Brokerage management fees and commissions	**8,699**	9,576	**25,954**	25,393
Trust services and investment management	**6,055**	6,086	**18,340**	19,130
Insurance commissions	**946**	739	**2,344**	2,192
Debt securities gains/(losses), net			**328**	772
Equity securities gains/(losses), net		35,162	**5,065**	35,189
Gain on divestiture			**200**	
All other income and commissions (Note 7)	**26,340**	21,315	**77,407**	79,321
Total noninterest income	**163,538**	220,887	**524,886**	604,816
Adjusted gross income after provision for loan losses	**297,003**	365,227	**979,955**	1,092,771
Noninterest expense:				
Employee compensation, incentives, and benefits	**153,970**	153,540	**479,044**	461,212
Repurchase and foreclosure provision		52,791	**299,256**	114,557
Occupancy	**13,059**	13,523	**36,664**	41,445
Legal and professional fees	**12,295**	18,132	**26,779**	56,935
Computer software	**10,260**	8,689	**29,685**	25,149

Contract employment and outsourcing	**10,187**	14,352	**32,146**	29,382
Operations services	**8,702**	11,978	**27,306**	39,746
Equipment rentals, depreciation, and maintenance	**7,931**	8,795	**23,336**	25,166
FDIC premium expense	**7,532**	5,904	**20,669**	22,798
Communications and courier	**4,722**	4,428	**13,705**	14,716
Foreclosed real estate	**2,968**	4,691	**9,046**	17,283
Amortization of intangible assets	**979**	1,004	**2,931**	3,016
Miscellaneous loan costs	**577**	959	**3,202**	3,310
All other expense (Note 7)	**29,987**	23,922	**108,571**	126,245
Total noninterest expense	**263,169**	322,708	**1,112,340**	980,960
Income/(loss)before income taxes	**33,834**	42,519	**(132,385)**	111,811
Provision/(benefit) for income taxes	**5,260**	8,367	**(72,348)**	16,362
Income/(loss) from continuing operations	**28,574**	34,152	**(60,037)**	95,449
Income/(loss) from discontinued operations, net of tax (a)	**108**	4,828	**160**	9,369
Net income/(loss)	**$ 28,682**	$ 38,980	**$ (59,877)**	$ 104,818
Net income attributable to noncontrolling interest	**2,875**	2,875	**8,563**	8,563
Net income/(loss) available to common shareholders	**$ 25,807**	$ 36,105	**$ (68,440)**	$ 96,255
Basic earnings/(loss) per share from continuing operations (Note 8)	**$ 0.10**	$ 0.12	**$ (0.27)**	$ 0.33
Diluted earnings/(loss) per share from continuing operations (Note 8)	**$ 0.10**	$ 0.12	**$ (0.27)**	$ 0.33
Basic earnings/(loss) per share available to common shareholders (Note 8)	**$ 0.10**	$ 0.14	**$ (0.27)**	$ 0.37
Diluted earnings/(loss) per share available to common shareholders (Note 8)	**$ 0.10**	$ 0.14	**$ (0.27)**	$ 0.37
Weighted average common shares (Note 8)	**246,628**	261,284	**249,742**	261,250
Diluted average common shares (Note 8)	**248,306**	262,803	**249,742**	263,697

See accompanying notes to consolidated condensed financial statements.

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

(a) Due to the nature of the subsidiary preferred stock issued by First Horizon Preferred Funding, LLC, First Horizon Preferred Funding II, LLC, and FTBNA, all components of Income/(loss) from discontinued operations, net of tax have been attributed solely to FHN as the controlling interest holder.

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CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	First Horizon National Corporation			
	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)(Unaudited)	**2012**	2011	**2012**	2011
Net income/(loss)	**$ 28,682**	$ 38,980	**$ (59,877)**	$ 104,818
Other comprehensive income/(loss), net of tax:				
Unrealized fair value adjustments:				
Securities available for sale	**243**	21,290	**(3,147)**	33,992
Recognized pension and other employee benefit plans net periodic benefit costs	**5,655**	3,665	**16,619**	10,001
Other comprehensive income/(loss)	**5,898**	24,955	**13,472**	43,993
Comprehensive income/(loss)	**34,580**	63,935	**(46,405)**	148,811
Comprehensive income attributable to noncontrolling interest	**2,875**	2,875	**8,563**	8,563
Comprehensive income/(loss) attributable to controlling interest	**$ 31,705**	$ 61,060	**$ (54,968)**	$ 140,248

See accompanying notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

	First Horizon National Corporation					
	2012			2011		
(Dollars in thousands except per share data)(Unaudited)	Controlling Interest	Noncontrolling Interest	Total	Controlling Interest	Noncontrolling Interest	Total
Balance, January 1	**$ 2,389,472**	**$ 295,165**	**$ 2,684,637**	$ 2,382,840	$ 295,165	$ 2,678,005
Net income/(loss)	**(68,440)**	**8,563**	**(59,877)**	96,255	8,563	104,818
Other comprehensive income/(loss) (a)	**13,472**		**13,472**	43,993		43,993
Comprehensive income/(loss)	**(54,968)**	**8,563**	**(46,405)**	140,248	8,563	148,811
Common stock warrant repurchased - CPP				(79,700)		(79,700)
Common stock repurchased (b)	**(98,902)**		**(98,902)**	(920)		(920)
Cash dividends declared ($.01/share)	**(7,464)**		**(7,464)**	(7,770)		(7,770)
Common stock issued for:						
Stock options and restricted stock - equity awards	**133**		**133**			
Stock-based compensation expense	**12,398**		**12,398**	9,514		9,514
Dividends declared - noncontrolling interest of subsidiary preferred stock		**(8,563)**	**(8,563)**		(8,563)	(8,563)
Tax benefit reversals - stock-based compensation plans	**(3,946)**		**(3,946)**	(928)		(928)
Other changes in equity				4,781		4,781
Balance, September 30	**$ 2,236,723**	**$ 295,165**	**$ 2,531,888**	$ 2,448,065	$ 295,165	$ 2,743,230

See accompanying notes to consolidated condensed financial statements.

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

(a) Due to the nature of the subsidiary preferred stock issued by First Horizon Preferred Funding, LLC, First Horizon Preferred Funding II, LLC, and FTBNA, all components of Other comprehensive income/(loss) have been attributed solely to FHN as the controlling interest holder.

(b) 2012 includes $96.4 million repurchased under the share repurchase program launched in fourth quarter 2011.

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	First Horizon National Corporation	
	Nine Months Ended September 30	
(Dollars in thousands) (Unaudited)	**2012**	2011
Operating Activities		
Net income/(loss)	**$ (59,877)**	$ 104,818
Adjustments to reconcile net income/(loss) to net cash provided/(used) by operating activities:		
Provision for loan losses	**63,000**	34,000
Provision/(benefit) for deferred income tax	**(83,807)**	21,953
Depreciation and amortization of premises and equipment	**26,320**	26,042
Amortization of intangible assets	**2,931**	3,380
Net other amortization and accretion	**59,161**	36,333
Net (increase)/decrease in derivatives	**(11,635)**	9,098
Market value adjustment on mortgage servicing rights	**4,541**	38,157
Repurchase and foreclosure provision	**299,256**	114,557
Fair value adjustment to foreclosed real estate	**7,873**	14,001
Goodwill impairment		10,100
Loss accruals from litigation and regulatory matters	**29,013**	40,585
(Gains)/losses on divestitures (a)	**(485)**	(10,177)
Stock-based compensation expense	**12,398**	9,514
Tax benefit reversals stock-based compensation plans	**3,946**	928
Equity securities (gains)/losses, net	**(5,065)**	(35,189)
Debt securities gains, net	**(328)**	(772)
Gains on extinguishment of debt		(5,761)
Net (gain)/losses on sale/disposal of fixed assets	**(2,432)**	10
Net (increase)/decrease in:		
Trading securities	**(223,064)**	(463,652)
Loans held-for-sale	**3,347**	(10,858)
Capital markets receivables	**(626,203)**	(375,107)
Interest receivable	**(6,256)**	(6,717)
Other assets	**211,679**	(13,677)
Net increase/(decrease) in:		
Capital markets payables	**409,493**	443,658
Interest payable	**12,684**	6,693
Other liabilities	**(183,736)**	(137,157)
Trading liabilities	**169,685**	109,200
Total adjustments	**172,316**	(140,858)
Net cash provided/(used) by operating activities	**112,439**	(36,040)
Investing Activities		
Available-for-sale securities:		
Sales	**47,493**	493,591
Maturities	**758,573**	558,462
Purchases	**(870,973)**	(1,261,130)
Premises and equipment:		
Purchases	**(14,826)**	(30,669)
Sales	**6,845**	
Net (increase)/decrease in:		
Loans	**(291,042)**	306,204
Interests retained from securitizations classified as trading securities	**6,915**	6,205
Interest-bearing cash	**11,940**	159,202
Cash receipts related to divestitures	**5,278**	24,594

Net cash provided/(used) by investing activities	**(339,797)**	256,459
Financing Activities		
Common stock:		
Cash dividends paid	**(7,604)**	(5,333)
Repurchase of shares (b)	**(98,902)**	(920)
Repurchase of common stock warrant - CPP		(79,700)
Tax benefit reversals stock-based compensation plans	**(3,946)**	(928)
Stock option exercised	**133**	
Cash dividends paid - preferred stock - noncontrolling interest	**(8,531)**	(8,500)
Term borrowings:		
Payments/maturities	**(208,637)**	(662,646)
Increases in restricted term borrowings	**5,622**	9,797
Net cash paid for extinguishment of debt		(100,000)
Net increase/(decrease) in:		
Deposits	**15,102**	490,024
Short-term borrowings	**591,532**	428,308
Net cash provided/(used) by financing activities	**284,769**	70,102
Net increase/(decrease) in cash and cash equivalents	**57,411**	290,521
Cash and cash equivalents at beginning of period	**828,255**	768,774
Cash and cash equivalents at end of period	**$ 885,666**	$ 1,059,295
Supplemental Disclosures		
Total interest paid	**$ 71,535**	$ 93,605
Total taxes paid	**34,560**	14,543
Total taxes refunded	**168,391**	81,235
Transfer from loans to other real estate owned	**25,986**	50,063

See accompanying notes to consolidated condensed financial statements.

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

(a) Net of tax, gains on divestitures are $9.9 million for 2011.

(b) 2012 includes $96.4 million repurchased under the share repurchase program launched in fourth quarter 2011.

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Notes to the Consolidated Financial Statements

Note 1 - Financial Information

Basis of Accounting. The unaudited interim consolidated condensed financial statements of First Horizon National Corporation (FHN), including its subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States of America and follow general practices within the industries in which it operates. This preparation requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions are based on information available as of the date of the financial statements and could differ from actual results. In the opinion of management, all necessary adjustments have been made for a fair presentation of financial position and results of operations for the periods presented. These adjustments are of a normal recurring nature unless otherwise disclosed in this filing. The operating results for the interim 2012 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 2011 Annual Report to shareholders.

Summary of Accounting Changes. Effective January 1, 2012, the FASB issued Accounting Standards Update 2011-08, Testing Goodwill for Impairment (ASU 2011-08). ASU 2011-08 provides that an entity may first perform a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill, when determining whether it is necessary to perform the current two-step goodwill impairment test discussed in FASB Accounting Standards Codification 350, Intangibles - Goodwill and Other (ASC 350). Thus, if an entity concludes from its qualitative assessment that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, it must perform the two-step test. ASU 2011-08 provides examples of events and circumstances that should be considered in an evaluation of whether it is more likely than not that the fair value of an entity s reporting unit is less than its carrying amount. The new qualitative indicators replace the guidance previously provided in ASC 350 which is used to determine whether an interim goodwill impairment test is required, and is applicable for assessing whether to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. Under the provisions of ASU 2011-08, entities will be allowed, on the basis of their discretion, to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test, and will be able to resume performing the qualitative assessment in any subsequent period. ASU 2011-08 removes the current alternative in ASC 350 which allows for the carryforward of the detailed calculation of the fair value of a reporting unit from one year to the next if certain conditions are met. The provisions of ASU 2011-08 are effective for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of the provisions of ASU 2011-08 had no effect on FHN s statement of condition, results of operations, or cash flows.

Effective January 1, 2012, the FASB issued Accounting Standards Update 2011-05, Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 requires that net income and other comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 also provides that regardless of the method used to present comprehensive income, presentation is required on the face of the financial statements of reclassification adjustments for items that are reclassified from other comprehensive income to net income. ASU 2011-05 does not change the current option for entities to present components of other comprehensive income gross or net of the effect of income taxes, provided that such tax effects are presented in the statement in which other comprehensive income is presented or disclosed in the notes to the financial statements. The provisions of ASU 2011-05 are effective for periods beginning after December 15, 2011, with retrospective application to all periods presented in the financial statements required. No transition disclosures are required upon adoption. For interim reporting periods, filers are only required to present total comprehensive income in a single continuous statement or in two consecutive statements. On December 23, 2011, the FASB issued ASU 2011-12, which indefinitely defers the provisions of ASU 2011-05 that require entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented (for both interim and annual financial statements). Upon adoption of the provisions of ASU 2011-05 and ASU 2011-12 on January 1, 2012, FHN revised its financial statements and disclosures accordingly.

Effective January 1, 2012, the FASB issued Accounting Standards Update 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 provides that the highest-and-best use and valuation-premise concepts included in ASC 820 are only relevant when measuring the fair value of nonfinancial assets, thereby prohibiting the grouping of financial instruments for purposes of determining their fair values when the unit of account is specified in other guidance. However, under ASU 2011-04 an exception is permitted which allows an entity to measure the fair value of financial instruments that are managed on the basis of the entity s net exposure to a particular market risk, or to the credit risk of a particular counterparty, on a net basis when certain criteria are met. Such criteria include that there is evidence that the entity manages its financial instruments in that way, the entity applies such accounting policy election consistently from period to period, and the entity is required or has elected to measure those financial assets and financial liabilities at fair value in the statement of financial position at the end of each reporting period. Additionally, to qualify for the exception to the valuation premise, market risks that are being offset must be substantially the same. ASU 2011-04 also extends ASC 820 s prohibition on the use of blockage factors in fair value measurements to all three levels of the fair value hierarchy except for fair value measurements of Level 2 and 3 measurements when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance. ASU 2011-04 also provides that an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets. Under ASC 820, as amended, expanded

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Note 1 - Financial Information (Continued)

disclosures are required including disclosure of quantitative information about significant unobservable inputs used in Level 3 fair value measurements, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of recurring Level 3 measurements. Additional disclosures required under ASU 2011-04 include disclosure of fair value by level for each class of assets and liabilities not recorded at fair value but for which fair value is disclosed, and disclosure of any transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. The provisions of ASU 2011-04 are effective for periods beginning after December 15, 2011, with disclosure of the change, if any, in valuation technique and related inputs resulting from application of the amendments to ASC 820 required upon adoption, along with quantification of the total effect of the change, if practicable. Upon adoption of the provisions of ASU 2011-04, FHN revised its disclosures accordingly. Adoption of ASU 2011-04 had no effect on FHN s statement of condition, results of operations, or cash flows.

Effective January 1, 2012, the FASB issued Accounting Standards Update 2011-03, Reconsideration of Effective Control for Repurchase Agreements (ASU 2011-03). For entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity, ASU 2011-03 removes from the assessment of effective control under ASC 860, Transfers and Servicing , the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, as well as the collateral maintenance implementation guidance related to that criterion. Under ASC 860-10, as amended, the remaining criteria related to whether effective control over transferred financial assets has been maintained would still need to be evaluated, including whether the financial assets to be repurchased or redeemed are the same or substantially the same as those transferred, the agreement is to repurchase or redeem them before maturity at a fixed or determinable price, and whether the agreement is entered into contemporaneously with, or in contemplation of, the transfer. The provisions of ASU 2011-03 are effective for periods beginning after December 15, 2011, with prospective application to transactions or modifications of existing transactions that occur on or after the effective date. Since FHN accounts for all of its repurchase agreements as secured borrowings, adopting the provisions of ASU 2011-03 did not have an effect on FHN s statement of condition, results of operations, or cash flows.

Accounting Changes Issued but Not Currently Effective. In December 2011, the FASB issued Accounting Standards Update 2011-11, Balance Sheet: Disclosures about Offsetting Assets and Liabilities (ASU 2011-11). 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/transactions eligible for offset in the balance sheet and instruments/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 after January 1, 2013, with retrospective application to all periods presented in the financial statements required. FHN is currently assessing the effects of adopting the provisions of ASU 2011-11.

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Note 2 - Acquisitions and Divestitures

In 2011, FHN sold First Horizon Insurance, Inc. (FHI), the former subsidiary of First Tennessee Bank, a property and casualty insurance agency that served customers in over 40 states, Highland Capital Management Corporation (Highland), the former subsidiary of First Horizon National Corporation which provided asset management services, and First Horizon Msaver, Inc. (Msaver), the former subsidiary of First Tennessee Bank which provided administrative services for health savings accounts. FHN recognized $4.2 million combined after-tax gains on the sales of FHI and Highland and a $5.7 million after-tax gain related to the sale of Msaver. Additionally, in connection with the agreement to sell FHI, FHN incurred a pre-tax goodwill impairment of $10.1 million which was more than offset by $11.1 million of tax benefits recognized in first quarter 2011 related to the sale. The sales of FHI and Highland closed in second quarter 2011 and the sale of Msaver closed in third quarter 2011. The financial results of these businesses, the goodwill impairment, the gains on sales, and associated tax effects are reflected in the Income/(loss) from discontinued operations, net of tax line on the Consolidated Condensed Statements of Income for all periods presented.

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

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Note 3 - Investment Securities

The following tables summarize FHN s available for sale (AFS) securities on September 30, 2012 and 2011:

	September 30, 2012			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. treasuries	$ 54,995	$ 1	$	$ 54,996
Government agency issued mortgage-backed securities (MBS)	1,191,811	79,639		1,271,450
Government agency issued collateralized mortgage obligations (CMO)	1,530,075	25,562	(896)	1,554,741
Other U.S. government agencies	3,911	291		4,202
States and municipalities	17,970			17,970
Equity (a)	219,737	16		219,753
Other	510	7		517
Total securities available for sale (b)	**$ 3,019,009**	**$ 105,516**	**$ (896)**	**$ 3,123,629**

(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.