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

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

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-15185

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

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

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer
Smaller reporting company	Emerging Growth Company	(Do not check if a smaller reporting company)

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

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding on September 30, 2018
Common Stock, $.625 par value	323,942,816

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PART I.
FINANCIAL INFORMATION

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

CONSOLIDATED CONDENSED STATEMENTS OF CONDITION

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

Preferred stock - Series A, non-cumulative perpetual, no par value, liquidation preference of $100,000 per share - (shares authorized - 1,000; shares issued - 1,000 on September 30, 2018 and December 31, 2017)		
Common stock - $.625 par value (shares authorized - 400,000,000; shares issued - 323,942,816 on September 30, 2018 and 326,736,214 on December 31, 2017)	202,464	204,211
Capital surplus	3,101,102	3,147,613
Undivided profits	1,484,959	1,160,434
Accumulated other comprehensive loss, net (Note 8)	(437,649)	(322,825)
Total First Horizon National Corporation Shareholders' Equity	4,446,500	4,285,057
Noncontrolling interest	295,431	295,431
Total equity	4,741,931	4,580,488
Total liabilities and equity	$ 40,635,924	$ 41,423,388

See accompanying notes to consolidated condensed financial statements.

(a) September 30, 2018 and December 31, 2017 include $9.2 million and $11.7 million, respectively, of held-for-sale consumer mortgage loans secured by residential real estate in process of foreclosure.

(b) September 30, 2018 and December 31, 2017 include $20.8 million and $22.7 million, respectively, of held-to-maturity consumer mortgage loans secured by residential real estate in process of foreclosure.

(c) September 30, 2018 and December 31, 2017 include $11.0 million and $12.2 million, respectively, of foreclosed residential real estate.

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

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

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

See accompanying notes to consolidated condensed financial statements.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

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

See accompanying notes to consolidated condensed financial statements.

(a) Due to the nature of the preferred stock issued by FHN and its subsidiaries, all components of Other comprehensive income/(loss) have been attributed solely to FHN as the controlling interest holder.
(b) 2018 includes $19.0 million repurchased under share repurchase programs.
(c) See Note 2- Acquisitions and Divestitures for additional information.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

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

Prepayments and maturities	—	4,740
Premises and equipment:		
Sales	22,794	2,577
Purchases	(32,928)	(30,395)
Proceeds from the sale of Visa Class B shares	240,206	—
Proceeds from sales of OREO	25,328	9,235
Proceeds from sales of loans classified as held-to-maturity	50,498	—
Proceeds from BOLI	11,559	5,850
Net (increase)/decrease in:		
Loans	283,922	(586,426)
Interests retained from securitizations classified as trading securities	731	648
Interest-bearing cash	653,919	459,840
Cash paid related to divestitures	(27,599)	—
Cash (paid)/received for acquisition, net (b)	(46,017)	(123,971)
Net cash provided/(used) by investing activities	1,345,567	(260,535)
Financing Activities		

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Common stock:		
Stock options exercised	4,443	5,173
Cash dividends paid	(99,753)	(58,850)
Repurchase of shares (c)	(23,997)	(5,285)
Cash dividends paid - preferred stock - noncontrolling interest	(8,555)	(8,523)
Cash dividends paid - Series A preferred stock	(4,650)	(4,650)
Term borrowings:		
Issuance	—	121,184
Payments/maturities	(17,565)	(145,285)
Increases in restricted and secured term borrowings	5,646	29,231
Net increase/(decrease) in:		
Deposits	417,612	(572,621)
Short-term borrowings	(1,496,739)	1,261,395
Net cash provided/(used) by financing activities	(1,223,558)	621,769
Net increase/(decrease) in cash and cash equivalents	(8,836)	49,961
Cash and cash equivalents at beginning of period	1,452,046	1,037,794
Cash and cash equivalents at end of period	$1,443,210	$1,087,755
Supplemental Disclosures		
Total interest paid	$208,160	$92,405
Total taxes paid	12,779	38,151
Total taxes refunded	1,576	8,201
Transfer from loans to OREO	11,388	5,564
Transfer from loans HFS to trading securities	907,788	829,668

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

See accompanying notes to consolidated condensed financial statements.

(a) 2018 includes $107.4 million related to the sale of approximately $120 million UPB of subprime auto loans. See Note 2- Acquisitions and Divestitures for additional information.
(b) See Note 2- Acquisitions and Divestitures for additional information.
(c) 2018 includes $19.0 million repurchased under share repurchase programs.

Notes to the Consolidated Condensed Financial Statements (Unaudited)

Note 1 – Financial Information

Basis of Accounting. The unaudited interim consolidated condensed financial statements of First Horizon National Corporation ("FHN"), including its subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States of America and follow general practices within the industries in which it operates. This preparation requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions are based on information available as of the date of the financial statements and could differ from actual results. In the opinion of management, all necessary adjustments have been made for a fair presentation of financial position and results of operations for the periods presented. These adjustments are of a normal recurring nature unless otherwise disclosed in this Quarterly Report on Form 10-Q. The operating results for the interim 2018 period are not necessarily indicative of the results that may be expected going forward. For further information, refer to the audited consolidated financial statements in Exhibit 13 to FHN's Annual Report on Form 10-K for the year ended December 31, 2017.

Revenues. Revenue is recognized when the performance obligations under the terms of a contract with a customer are satisfied in an amount that reflects the consideration FHN expects to be entitled. FHN derives a significant portion of its revenues from fee-based services. Noninterest income from transaction-based fees is generally recognized immediately upon completion of the transaction. Noninterest income from service-based fees is generally recognized over the period in which FHN provides the service. Any services performed over time generally require that FHN render services each period and therefore FHN measures progress in completing these services based upon the passage of time and recognizes revenue as invoiced.

Following is a discussion of FHN's key revenues within the scope of Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers", and all related amendments, except as noted.

Fixed Income. Fixed income includes fixed income securities sales, trading, and strategies, loan sales and derivative sales which are not within the scope of revenue from contracts with customers. Fixed income also includes investment banking fees earned for services related to underwriting debt securities and performing portfolio advisory services. FHN's performance obligation for underwriting services is satisfied on the trade date while advisory services is satisfied over time.

Deposit Transactions and Cash Management. Deposit transactions and cash management activities include fees for services related to consumer and commercial deposit products (such as service charges on checking accounts), cash management products and services such as electronic transaction processing (Automated Clearing House and Electronic Data Interchange), account reconciliation services, cash vault services, lockbox processing, and information reporting to large corporate clients. FHN's obligation for transaction-based services is satisfied at the time of the transaction when the service is delivered while FHN's obligation for service based fees is satisfied over the course of each month.

Brokerage, Management Fees and Commissions. Brokerage, management fees and commissions include fees for portfolio management, trade commissions, and annuity and mutual fund sales. Asset-based management fees are charged based on the market value of the client's assets. The services associated with these revenues, which include investment advice and active management of client assets are generally performed and recognized over a month or quarter. Transactional revenues are based on the size and number of transactions executed at the client's direction and are generally recognized on the trade date.

Trust Services and Investment Management. Trust services and investment management fees include investment management, personal trust, employee benefits, and custodial trust services. Obligations for trust services are generally satisfied over time but may be satisfied at points in time for certain activities that are transactional in nature.

Bankcard Income. Bankcard income includes credit interchange and network revenues and various card-related fees. Interchange income is recognized concurrently with the delivery of services on a daily basis. Card-related fees such as late fees, currency conversion, and cash advance fees are loan-related and excluded from the scope of ASU 2014-09.

Contract Balances. As of September 30, 2018, accounts receivable related to products and services on non-interest income were $9.0 million. For the three and nine months ended September 30, 2018, FHN had no material impairment losses on non-interest accounts receivable and there were no material contract assets, contract liabilities or deferred contract costs recorded on the Consolidated Condensed Statement of Condition as of September 30, 2018.

Transaction Price Allocated to Remaining Performance Obligations. For the three and nine months ended September 30, 2018, revenue recognized from performance obligations related to prior periods was not material.

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Note 1 – Financial Information (Continued)

Revenue expected to be recognized in any future year related to remaining performance obligations, excluding revenue pertaining to contracts that have an original expected duration of one year or less and contracts where revenue is recognized as invoiced, is not material.
Refer to Note 12 - Business Segment Information for a reconciliation of disaggregated revenue by major product line and reportable segment.

Debt Investment Securities. Available-for-sale ("AFS") and held-to-maturity (“HTM”) securities are reviewed quarterly for possible other-than-temporary impairment (“OTTI”). The review includes an analysis of the facts and circumstances of each individual investment such as the degree of loss, the length of time the fair value has been below cost, the expectation for that security’s performance, the creditworthiness of the issuer and FHN’s intent and ability to hold the security. Debt securities that may be sold prior to maturity are classified as AFS and are carried at fair value. The unrealized gains and losses on debt securities AFS, including securities for which no credit impairment exists, are excluded from earnings and are reported, net of tax, as a component of other comprehensive income within shareholders’ equity and the Statements of Comprehensive Income. Debt securities which management has the intent and ability to hold to maturity are reported at amortized cost. Interest-only strips that are classified as securities AFS are valued at elected fair value. See Note 16 - Fair Value of Assets and Liabilities for additional information.
Realized gains and losses for investment securities are determined by the specific identification method and reported in noninterest income. Declines in value judged to be other-than-temporary based on FHN’s analysis of the facts and circumstances related to an individual investment, including securities that FHN has the intent to sell, are also determined by the specific identification method. For HTM debt securities, OTTI recognized is typically credit-related and is reported in noninterest income. For impaired AFS debt securities that FHN does not intend to sell and will not be required to sell prior to recovery but for which credit losses exist, the OTTI recognized is separated between the total impairment related to credit losses which is reported in noninterest income, and the impairment related to all other factors which is excluded from earnings and reported, net of tax, as a component of other comprehensive income within shareholders’ equity and the Statements of Comprehensive Income.
Equity Investment Securities. Equity securities were classified as AFS through December 31, 2017. Subsequently, all equity securities are classified in Other assets.
National banks chartered by the federal government are, by law, members of the Federal Reserve System. Each member bank is required to own stock in its regional Federal Reserve Bank ("FRB"). Given this requirement, FRB stock may not be sold, traded, or pledged as collateral for loans. Membership in the Federal Home Loan Bank (“FHLB”) network requires ownership of capital stock. Member banks are entitled to borrow funds from the FHLB and are required to pledge mortgage loans as collateral. Investments in the FHLB are non-transferable and, generally, membership is maintained primarily to provide a source of liquidity as needed. FRB and FHLB stock are recorded at cost and are subject to impairment reviews.
Other equity investments primarily consist of mutual funds which are marked to fair value through earnings. Smaller balances of equity investments without a readily determinable fair value are recorded at cost minus impairment with adjustments through earnings for observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Summary of Accounting Changes.

Effective January 1, 2018, FHN adopted the provisions of ASU 2014-09, “Revenue from Contracts with Customers,” and all related amendments to all contracts using a modified retrospective transaction method. ASU 2014-09 does not change revenue recognition for financial assets. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This is accomplished through a five-step recognition framework involving 1) the identification of contracts with customers, 2) identification of performance obligations, 3) determination of the transaction price, 4) allocation of the transaction price to the performance obligations and 5) recognition of revenue as performance obligations are satisfied. Additionally, qualitative and quantitative information is required for disclosure regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In February 2016, the FASB issued ASU 2016-08, “Principal versus Agent Considerations,” which provides additional guidance on whether an entity should recognize revenue on a gross or net basis, based on which party controls the specified good or service before that good or service is transferred to a customer. In April 2016, the FASB issued ASU 2016-10, “Identifying Performance Obligations and Licensing,” which clarifies the original guidance included in ASU 2014-09 for identification of the goods or services provided to customers and enhances the implementation guidance for licensing arrangements. ASU 2016-12, “Narrow-Scope Improvements and Practical Expedients,” was issued in May 2016 to provide additional guidance for the implementation

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Note 1 – Financial Information (Continued)

and application of ASU 2014-09. “Technical Corrections and Improvements” ASU 2016-20 was issued in December 2016 and provides further guidance on certain issues. FHN elected to adopt the provisions of the revenue recognition standards through the cumulative effect alternative and determined that there were no significant effects on the timing of recognition, which resulted in no cumulative effect adjustment being required. Beginning in first quarter 2018, in situations where FHN's broker-dealer operations serve as the lead underwriter, the associated revenues and expenses are presented gross. The effect on 2018 revenues and expenses is not expected to be significant.

Effective January 1, 2018, FHN adopted the provisions of ASU 2017-05, “Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets” through the cumulative effect approach. ASU 2017-05 clarifies the meaning and application of the term "in substance nonfinancial asset" in transactions involving both financial and nonfinancial assets. If substantially all of the fair value of the assets that are promised to the counterparty in a contract are concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty are in substance nonfinancial assets within the scope of revenue recognition guidance for nonfinancial assets. ASU 2017-05 also clarifies that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it with the amount of revenue recognized based on the allocation guidance provided in ASU 2014-09. ASU 2017-05 also requires an entity to derecognize a distinct nonfinancial asset or distinct in substance nonfinancial asset in a partial sale transaction when it 1) does not have (or ceases to have) a controlling financial interest in the legal entity that holds the asset in accordance with Topic 810 and 2) transfers control of the asset in accordance with the provisions of ASU 2014-09. Once an entity transfers control of a distinct nonfinancial asset or distinct in substance nonfinancial asset, it is required to measure any noncontrolling interest it receives (or retains) at fair value. FHN determined that there were no significant effects on the timing of revenue recognition, which resulted in no cumulative effect adjustment being required.

Effective January 1, 2018, FHN adopted the provisions of ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 makes several revisions to the accounting, presentation and disclosure for financial instruments. Equity investments (except those accounted for under the equity method, those that result in consolidation of the investee, and those held by entities subject to specialized industry accounting which already apply fair value through earnings) are required to be measured at fair value with changes in fair value recognized in net income. This excludes FRB and FHLB stock holdings which are specifically exempted from the provisions of ASU 2016-01. An entity may elect to measure equity investments that do not have readily determinable market values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar instruments from the same issuer. ASU 2016-01 also requires a qualitative impairment review for equity investments without readily determinable fair values, with measurement at fair value required if impairment is determined to exist. For liabilities for which fair value has been elected, ASU 2016-01 revises current accounting to record the portion of fair value changes resulting from instrument-specific credit risk within other comprehensive income rather than earnings. FHN has not elected fair value accounting for any existing financial liabilities. Additionally, ASU 2016-01 clarifies that the need for a valuation allowance on a deferred tax asset related to available-for-sale securities should be assessed in combination with all other deferred tax assets rather than being assessed in isolation. ASU 2016-01 also makes several changes to existing fair value presentation and disclosure requirements, including a provision that all disclosures must use an exit price concept in the determination of fair value. Transition is through a cumulative effect adjustment to retained earnings for equity investments with readily determinable fair values. Equity investments without readily determinable fair values, for which the accounting election is made, will have any initial fair value marks recorded through earnings prospectively after adoption.

Upon adoption, FHN reclassified $265.9 million of equity investments out of AFS securities to Other assets, leaving only debt securities within the AFS classification. FHN evaluated the nature of its current equity investments (excluding FRB and FHLB stock holdings which are specifically exempted from the provisions of ASU 2016-01) and determined that substantially all qualified for the election available to assets without readily determinable fair values. Accordingly, FHN has applied this election and any future fair value marks for these investments will be recognized through earnings on a prospective basis subsequent to adoption. The requirements of ASU 2016-01 related to assessment of deferred tax assets and disclosure of the fair value of financial instruments did not have a significant effect on FHN because its current accounting and disclosure practices conform to the requirements of ASU 2016-01.

Effective January 1, 2018, FHN adopted the provisions of ASU 2016-04, “Recognition of Breakage of Certain Prepaid Stored-Value Products,” which indicates that liabilities related to the sale of prepaid stored-value products are considered financial liabilities and should have a breakage estimate applied for estimated unused funds. ASU 2016-04 does not apply to stored-value products that can only be redeemed for cash, are subject to escheatment or are linked to a segregated bank account. The adoption of ASU 2016-04 did not have a significant effect on FHN’s current accounting and disclosure practices.

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Note 1 – Financial Information (Continued)

Effective January 1, 2018, FHN adopted the provisions of ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which clarifies multiple cash flow presentation issues including providing guidance as to classification on the cash flow statement for certain cash receipts and cash payments where diversity in practice exists. The adoption of ASU 2016-15 was applied retroactively resulting in proceeds from bank-owned life insurance ("BOLI") being classified as an investing activity rather than their prior classification as an operating activity. All of these amounts are included in Other assets in the Consolidated Condensed Statement of Condition. The amounts reclassified are presented in the table below.

(Dollars in thousands)	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017	Fiscal Years Ended December 31 2017	2016	2015
Proceeds from BOLI	$ 160	$ 5,850	$11,440	$2,740	$2,425

Effective January 1, 2018, FHN retroactively adopted the provisions of ASU 2017-07, "Improving the Presentation of Net
Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which requires the disaggregation of the service cost component from the other components of net benefit cost for pension and postretirement plans. Service cost must be included in the same income statement line item as other compensation-related expenses. All other components of net benefit cost are required to be presented in the income statement separately from the service cost component, with disclosure of the line items where these amounts are recorded. FHN's disclosures for pension and postretirement costs provide details of the service cost and all other components for expenses recognized for its applicable benefit plans. All of these amounts were previously included in Employee compensation, incentives, and benefits expense in the Consolidated Condensed Statements of Income. Upon adoption of ASU 2017-07 FHN reclassified the expense components other than service cost into All other expense and revised its disclosures accordingly. The amounts reclassified are presented in the table below.

(Dollars in thousands)	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017	Fiscal Years Ended December 31 2017	2016	2015
Net periodic benefit cost reclassified	$ 415	$ 1,665	$1,946	$(843)	$(1,168)

Effective January 1, 2018, FHN early adopted the provisions of ASU 2017-08, "Premium Amortization on Purchased Callable Debt Securities," which shortens the amortization period for securities that have explicit, noncontingent call features that are callable at fixed prices and on preset dates. In contrast to the current requirement for premium amortization to extend to the contractual maturity date, ASU 2017-08 requires the premium to be amortized to the earliest call date. ASU 2017-08 does not change the amortization of discounts, which will continue to be amortized to maturity. The new guidance does not apply to either 1) debt securities where the prepayment date is not preset or the price is not known in advance or 2) debt securities that qualify for amortization based on estimated prepayment rates. The adoption of ASU 2017-08 did not have an effect on FHN's current investments.

Effective January 1, 2018, FHN early adopted the provisions of ASU 2017-12, “Targeted Improvements to Accounting for Hedging Activities,” which revises the financial reporting for hedging relationships through changes to both the designation and measurement requirements for qualifying hedge relationships and the presentation of hedge results. ASU 2017-12 expands permissible risk component hedging strategies, including the designation of a contractually specified interest rate (e.g., a bank’s prime rate) in hedges of cash flows from variable rate financial instruments. Additionally, ASU 2017-12 makes significant revisions to fair value hedging activities, including the ability to measure the fair value changes for a hedged item solely for changes in the benchmark interest rate, permitting partial-term hedges, limiting consideration of prepayment risk for hedged debt instruments solely to the effects of changes in the benchmark interest rate and allowing for certain hedging strategies to be applied to closed portfolios of prepayable debt instruments. ASU 2017-12 also provides elections for the exclusion of certain portions of a hedging instrument’s change in fair value from the assessment of hedge effectiveness. If elected, the fair value changes of these excluded components may be recognized immediately or recorded into other comprehensive income with recycling into earnings using a rational and systematic methodology over the life of the hedging instrument.

Under ASU 2017-12 some of the documentation requirements for hedge accounting relationships are relaxed, but the highly effective threshold has been retained. Hedge designation documentation and a prospective qualitative assessment are still required at hedge inception, but the initial quantitative analysis may be delayed until the end of the quarter the hedge is commenced. If certain criteria are met, an election can be made to perform future effectiveness assessments using a purely qualitative methodology. ASU 2017-12 also revises the income statement presentation requirements for hedging activities. For

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Note 1 – Financial Information (Continued)

fair value hedges, the entire change in the fair value of the hedging instrument included in the assessment of effectiveness is recorded to the same income statement line item used to present the earnings effect of the hedged item. For cash flow hedges, the entire fair value change of the hedging instrument that is included in the assessment of hedge effectiveness is initially recorded in other comprehensive income and later recycled into earnings as the hedged transaction(s) affect net income with the income statement effects recorded in the same financial statement line item used to present the earnings effect of the hedged item.

ASU 2017-12 also makes revisions to the current disclosure requirements for hedging activities to reflect the presentation of hedging results consistent with the changes to income statement classification and to improve the disclosure of the hedging results on the balance sheet.

FHN early adopted the provisions of ASU 2017-12 in the first quarter of 2018. Prospectively, FHN is recording components of hedging results for its fair value and cash flow hedges previously recognized in other expense within either interest income or interest expense. Additionally, FHN made cumulative effect adjustments to the hedged items, accumulated other comprehensive income and retained earnings as of the beginning of 2018. The magnitude of the cumulative effect adjustments and prospective effects were insignificant for FHN’s hedge relationships.

Accounting Changes Issued but Not Currently Effective

In February 2016, the FASB issued ASU 2016-02, “Leases,” which requires a lessee to recognize in its statement of condition a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU 2016-02 leaves lessor accounting largely unchanged from prior standards. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. All other leases must be classified as financing or operating leases which depends on the relationship of the lessee’s rights to the economic value of the leased asset. For finance leases, interest on the lease liability is recognized separately from amortization of the right-of-use asset in earnings, resulting in higher expense in the earlier portion of the lease term. For operating leases, a single lease cost is calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis.

In July 2018, the FASB issued ASU 2018-11, “Leases - Targeted Improvements,” which provides an election for a cumulative effect adjustment to retained earnings upon initial adoption of ASU 2016-02. Alternatively, under the initial guidance of ASU 2016-02, lessees and lessors are required to recognize and measure leases at the beginning of the earliest comparative period presented using a modified retrospective approach. Both adoption alternatives include a number of optional practical expedients that entities may elect to apply, which would result in continuing to account for leases that commence before the effective date in accordance with previous requirements (unless the lease is modified) except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous requirements. ASU 2016-02 also requires expanded qualitative and quantitative disclosures to assess the amount, timing, and uncertainty of cash flows arising from lease arrangements. ASU 2016-02 and ASU 2018-11 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. FHN continues to evaluate the impact of ASU 2016-02 on its current accounting and disclosure practices. Upon adoption, FHN intends to utilize the cumulative effect transition alternative provided by ASU 2018-11. FHN also intends to utilize the lease classification practical expedients and the short-term lease exemption upon adoption. FHN currently estimates that adoption of ASU 2016-02 will result in recognition of lease assets of approximately $185 million and lease liabilities of approximately $195 million along with smaller impacts to other balance sheet classifications as well as an after-tax increase in retained earnings of approximately $3 million, primarily reflecting the recognition of deferred gains associated with prior sale-leaseback transactions. Since FHN will elect to determine the discount rate on leases as of the effective date and will also elect to use hindsight in determining remaining lease terms as well as impairments of lease assets resulting from lease abandonments upon adoption, this amount may change based on revisions to the inputs used in calculating this estimated adoption effect.

In June 2016, the FASB issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments,” which revises the measurement and recognition of credit losses for assets measured at amortized cost (e.g., held-to-maturity (“HTM”) loans and debt securities) and available-for-sale (“AFS”) debt securities. Under ASU 2016-13, for assets measured at amortized cost, the current expected credit loss (“CECL”) is measured as the difference between amortized cost and the net amount expected to be collected. This represents a departure from existing GAAP as the “incurred loss” methodology for recognizing credit losses delays recognition until it is probable a loss has been incurred. The measurement of current expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable

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Note 1 – Financial Information (Continued)

forecasts that affect the collectability of the reported amount. Additionally, current disclosures of credit quality indicators in relation to the amortized cost of financing receivables will be further disaggregated by year of origination. ASU 2016-13 leaves the methodology for measuring credit losses on AFS debt securities largely unchanged, with the maximum credit loss representing the difference between amortized cost and fair value. However, such credit losses will be recognized through an allowance for credit losses, which permits recovery of previously recognized credit losses if circumstances change.

ASU 2016-13 also revises the recognition of credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination (“PCD assets”). For PCD assets, the initial allowance for credit losses is added to the purchase price. Only subsequent changes in the allowance for credit losses are recorded as a credit loss expense for PCD assets. Interest income for PCD assets will be recognized based on the effective interest rate, excluding the discount embedded in the purchase price that is attributable to the acquirer’s assessment of credit losses at acquisition. Currently, credit losses for purchased credit-impaired assets are included in the initial basis of the assets with subsequent declines in credit resulting in expense while subsequent improvements in credit are reflected as an increase in the future yield from the assets.

The provisions of ASU 2016-13 will be generally adopted through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in the year of adoption. Prospective implementation is required for debt securities for which an other-than-temporary-impairment (“OTTI”) had been previously recognized. Amounts previously recognized in accumulated other comprehensive income (“AOCI”) as of the date of adoption that relate to improvements in cash flows expected to be collected will continue to be accreted into income over the remaining life of the asset. Recoveries of amounts previously written off relating to improvements in cash flows after the date of adoption will be recorded in earnings when received. A prospective transition approach will be used for existing PCD assets where, upon adoption, the amortized cost basis will be adjusted to reflect the addition of the allowance for credit losses. Thus, an entity will not be required to reassess its purchased financial assets that exist as of the date of adoption to determine whether they would have met at acquisition the new criteria of more-than-insignificant credit deterioration since origination. An entity will accrete the remaining noncredit discount (based on the revised amortized cost basis) into interest income at the effective interest rate at the adoption date.

ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in fiscal years beginning after December 15, 2018. FHN continues to evaluate the impact of ASU 2016-13. FHN has met with industry experts, initiated training for key employees associated with the new standard, and defined an initial approach that it is currently testing. FHN has begun developing the formal models and processes that will be required to implement the new standard.

In August 2018, the FASB issued ASU 2018-13, “Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement,” which makes multiple revisions to current disclosures requirements for fair value measurements. ASU 2018-13 removes the disclosure requirements for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for the timing of recognition for transfers between fair value levels and the discussion of valuation processes for Level 3 measurements. Additional disclosure is required for unrealized gains and losses recognized with accumulated other comprehensive income and the weighted average and range of unobservable inputs used in Level 3 measurements. ASU 2018-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted at an individual level for each removed or modified disclosure while adoption of other changes may be delayed until their effective date. FHN is assessing the effects of ASU 2018-13 on its current fair value disclosures.

In August 2018, the FASB issued ASU 2018-14, “Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans,” which makes multiple revisions to the disclosure requirements for defined benefit pension and postretirement plans. ASU 2018-14 removes the disclosure requirements for 1) the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year, 2) the amount and timing of plan assets expected to be returned to the employer, and 3) the effects of a one-percentage-point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for postretirement health care benefits. ASU 2018-14 adds disclosures for 1) the weighted-average interest crediting rates for plans with promised interest crediting rates, 2) an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period, 3) the projected benefit obligation ("PBO") and fair value of plan assets for plans with PBOs in excess of plan assets and 4) the accumulated benefit obligation ("ABO") and fair value of plan assets for plans with ABOs in excess of plan assets. ASU 2018-14 is effective for fiscal years ending after December 15, 2020 with full

Note 1 – Financial Information (Continued)

retrospective presentation required. Early adoption is permitted. FHN is assessing the effects of ASU 2018-14 on its current benefit plan disclosures.

In August 2018, the FASB issued ASU 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract," which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). Capitalized implemented costs are required to be expensed over the term of the hosting arrangement which includes the non-cancellable period of the arrangement plus periods covered by (1) an option to extend the arrangement if the customer is reasonably certain to exercise that option, (2) an option to terminate the arrangement if the customer is reasonably certain not to exercise the termination option, and (3) an option to extend (or not to terminate) the arrangement in which exercise of the option is in the control of the vendor. ASU 2018-15 also requires application of the impairment guidance applicable to long-lived assets to the capitalized implementation costs. Amortization expense related to capitalized implementation costs must be presented in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement and payments for capitalized implementation costs will be classified in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. Capitalized implementation costs will be presented in the statement of financial position in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019 with early adoption permitted. Adoption may be either fully retrospective or prospective only. FHN is assessing the effects of ASU 2018-15 on it current accounting practices.