

FIRST HORIZON NATIONAL CORP
Form 10-Q
August 08, 2008

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

(Mark one)

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

For the quarterly period ended June 30, 2008

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 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 definitions of "accelerated filer," "large accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a 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 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.

Class	Outstanding on June 30, 2008
Common Stock, \$.625 par value	195,751,330

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.

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CONSOLIDATED CONDENSED STATEMENTS OF CONDITION

First Horizon National Corporation

(Dollars in thousands)(Unaudited)	June 30		Dec 31, 2007
	2008	2007	
Assets:			
Cash and due from banks	\$ 838,376	\$ 799,428	\$ 1,000,000
Federal funds sold and securities purchased under agreements to resell	1,166,982	1,121,052	1,000,000
Total cash and cash equivalents	2,005,358	1,920,480	2,000,000
Interest-bearing deposits with other financial institutions	39,829	58,241	1,000,000
Trading securities	1,473,815	2,291,704	1,000,000
Trading securities - divestiture	89,239	-	1,000,000
Loans held for sale	2,554,030	3,330,489	3,000,000
Loans held for sale - divestiture	-	-	2,000,000
Securities available for sale	2,896,688	3,374,583	3,000,000
Securities held to maturity (fair value of \$240 on June 30, 2008; \$271 on June 30, 2007; and \$242 on December 31, 2007)	240	270	1,000,000
Loans, net of unearned income	22,225,232	22,382,303	22,000,000
Less: Allowance for loan losses	575,149	229,919	3,000,000
Total net loans	21,650,083	22,152,384	21,000,000
Mortgage servicing rights, net	903,634	1,522,966	1,000,000
Mortgage servicing rights - divestiture	235,761	-	1,000,000
Goodwill	192,408	279,825	1,000,000
Other intangible assets, net	48,615	61,947	1,000,000
Capital markets receivables	994,571	1,240,456	5,000,000
Premises and equipment, net	344,410	438,807	3,000,000
Real estate acquired by foreclosure	141,857	67,499	1,000,000
Other assets	1,908,795	1,654,433	1,000,000
Other assets - divestiture	70,628	-	1,000,000
Total assets	\$ 35,549,961	\$ 38,394,084	\$ 37,000,000
Liabilities and shareholders' equity:			
Deposits:			
Savings	\$ 4,041,352	\$ 3,520,757	\$ 3,000,000
Time deposits	2,468,521	2,885,307	2,000,000
Other interest-bearing deposits	1,880,678	1,822,076	1,000,000
Interest-bearing deposits-divestiture	-	-	1,000,000
Certificates of deposit \$100,000 and more	1,953,432	8,016,808	3,000,000
Certificates of deposit \$100,000 and more - divestiture	-	-	1,000,000
Interest-bearing	10,343,983	16,244,948	11,000,000
Noninterest-bearing	4,453,332	5,516,735	5,000,000
Noninterest-bearing - divestiture	296,632	-	1,000,000
Total deposits	15,093,947	21,761,683	17,000,000
Federal funds purchased and securities sold under agreements to repurchase	2,620,014	3,841,251	4,000,000
Federal funds purchased and securities sold under agreements to repurchase - divestiture	-	-	1,000,000
Trading liabilities	464,225	658,533	5,000,000
Commercial paper and other short-term borrowings	5,998,810	246,815	3,000,000
Term borrowings	5,783,407	5,828,138	6,000,000
Other collateralized borrowings	767,010	821,966	8,000,000
Total long-term debt	6,550,417	6,650,104	6,000,000
Capital markets payables	868,883	1,144,029	5,000,000
Other liabilities	959,476	1,332,910	1,000,000

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Other liabilities-divestiture	1,466	-	
Total liabilities	32,557,238	35,635,325	34,5
Preferred stock of subsidiary	295,277	295,277	2
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 - 195,751,330 on June 30, 2008; 126,236,535 on June 30, 2007; and 126,366,177 on December 31, 2007)	122,345	78,898	
Capital surplus	980,428	352,138	3
Undivided profits	1,646,272	2,120,014	1,7
Accumulated other comprehensive (loss)/ income, net	(51,599)	(87,568)	
Total shareholders' equity	2,697,446	2,463,482	2,
Total liabilities and shareholders' equity	\$ 35,549,961	\$ 38,394,084	\$ 37,

See accompanying notes to consolidated condensed financial statements.

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

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Dollars in thousands except per share data)(Unaudited)	First Horizon National Corporation			
	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Interest income:				
Interest and fees on loans	\$ 285,419	\$ 413,254	\$ 617,095	\$ 823,681
Interest on investment securities	39,212	47,105	79,947	101,375
Interest on loans held for sale	54,217	65,923	112,655	124,768
Interest on trading securities	30,182	50,069	66,078	90,632
Interest on other earning assets	6,455	18,552	16,153	37,632
Total interest income	415,485	594,903	891,928	1,178,088
Interest expense:				
Interest on deposits:				
Savings	18,362	29,919	44,250	55,950
Time deposits	25,540	33,555	57,042	66,592
Other interest-bearing deposits	3,556	6,808	9,462	13,697
Certificates of deposit \$100,000 and more	17,361	110,630	48,429	216,906
Interest on trading liabilities	9,400	14,272	19,015	30,633
Interest on short-term borrowings	49,425	68,932	119,474	136,096
Interest on long-term debt	52,946	91,355	127,269	181,363
Total interest expense	176,590	355,471	424,941	701,237
Net interest income	238,895	239,432	466,987	476,851
Provision for loan losses	220,000	44,408	460,000	72,894
Net interest income after provision for loan losses	18,895	195,024	6,987	403,957
Noninterest income:				
Capital markets	122,338	85,054	253,795	172,167
Deposit transactions and cash management	46,797	43,079	89,350	82,437
Mortgage banking	172,418	71,300	331,130	144,397
Trust services and investment management	8,883	10,628	17,992	20,316
Insurance commissions	6,822	7,674	14,966	17,463
Gains/(losses) from loan sales and securitizations	(6,984)	9,615	(11,081)	19,278
Equity securities gains/(losses), net	(972)	(995)	64,043	2,967
Debt securities gains/(losses), net	-	(19)	931	6,292
Losses on divestitures	(429)	-	(1,424)	-
All other income and commissions	50,173	53,963	88,420	98,170
Total noninterest income	399,046	280,299	848,122	563,487
Adjusted gross income after provision for loan losses	417,941	475,323	855,109	967,444
Noninterest expense:				
Employee compensation, incentives and benefits	277,078	258,191	564,548	504,534
Occupancy	30,018	33,402	58,609	62,186
Equipment rentals, depreciation and maintenance	18,268	21,791	33,279	39,404
Operations services	19,124	17,457	38,088	35,278
Communications and courier	11,477	10,746	22,481	22,286
Amortization of intangible assets	2,182	2,623	4,622	5,448
All other expense	107,696	113,030	182,493	191,116
Total noninterest expense	465,843	457,240	904,120	860,252
(Loss)/income before income taxes	(47,902)	18,083	(49,011)	107,192
(Benefit)/provision for income taxes	(28,821)	(3,861)	(36,967)	14,941
(Loss)/income from continuing operations	(19,081)	21,944	(12,044)	92,251
Income from discontinued operations, net of tax	-	179	883	419
Net (loss)/income	\$ (19,081)	\$ 22,123	\$ (11,161)	\$ 92,670

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Earnings/(loss) per common share (Note 7)	\$	(.11)	\$.18	\$	(.07)	\$.74
Diluted earnings/(loss) per common share (Note 7)	\$	(.11)	\$.17	\$	(.07)	\$.72
Weighted average common shares (Note 7)		171,680		125,873		148,898		125,609
Diluted average common shares (Note 7)		171,680		128,737		148,898		128,720

See accompanying notes to consolidated condensed financial statements.

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

CONSOLIDATED CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY (Dollars in thousands)(Unaudited)	First Horizon National Corporation	
	2008	2007
Balance, January 1	\$ 2,135,596	\$ 2,462,390
Adjustment to reflect change in accounting for tax benefits (FIN 48)	-	(862)
Adjustment to reflect adoption of measurement date provisions for SFAS No. 158	-	6,233
Adjustment to reflect change in accounting for purchases of life insurance (EITF Issue No. 06-5)	-	(548)
Adjustment to reflect adoption of measurement date provisions for SFAS No. 157	(12,502)	-
Adjustment to reflect change in accounting for split dollar life insurance arrangements (EITF Issue No. 06-4)	(8,530)	-
Net income/(loss)	(11,161)	92,670
Other comprehensive income/(loss):		
Unrealized fair value adjustments, net of tax:		
Cash flow hedges	(6)	(29)
Securities available for sale	(4,999)	(25,963)
Recognized pension and other employee benefit plans net periodic benefit costs	1,506	2,562
Comprehensive (loss)/income	(14,660)	69,240
Cash dividends declared	(64,426)	(113,450)
Common stock issuance (69 million shares issued at \$10 per share net of offering costs)	659,762	-
Common stock repurchased	(214)	(1,096)
Common stock issued for:		
Stock options and restricted stock	572	30,506
Excess tax benefit from stock-based compensation arrangements	(1,531)	6,029
Stock-based compensation expense	3,379	5,009
Other	-	31
Balance, June 30	\$ 2,697,446	\$ 2,463,482

See accompanying notes to consolidated condensed financial statements.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS		First Horizon National Corporation	
		Six Months Ended June 30	
(Dollars in thousands)(Unaudited)		2008	2007
Operating Activities	Net (loss)/income	\$ (11,161)	\$ 92,670
	Adjustments to reconcile net (loss)/income to net cash provided/(used) by operating activities:		
	Provision for loan losses	460,000	72,894
	(Benefit)/provision for deferred income tax	(36,967)	14,941
	Depreciation and amortization of premises and equipment	23,075	27,231
	Amortization of intangible assets	4,622	5,448
	Net other amortization and accretion	23,901	42,386
	Decrease in derivatives, net	(34,458)	58,724
	Market value adjustment on mortgage servicing rights	2,992	(100,230)
	Provision for foreclosure reserve	8,386	6,101
	Loss on divestiture	1,424	-
	Stock-based compensation expense	3,379	5,009
	Excess tax benefit from stock-based compensation arrangements	1,531	(6,029)
	Equity securities gains, net	(64,043)	(2,967)
	Debt securities gains, net	(931)	(6,292)
	Gains on repurchases of debt	(12,596)	-
	Net losses on disposal of fixed assets	4,723	588
	Net (increase)/decrease in:		
	Trading securities	171,252	(60,959)
	Loans held for sale	939,182	(456,912)
	Capital markets receivables	(470,152)	(508,174)
	Interest receivable	28,900	11,013
	Other assets	(48,514)	119,737
	Net increase/(decrease) in:		
	Capital markets payables	282,525	344,540
	Interest payable	(39,776)	5,600
	Other liabilities	(298,889)	(48,599)
	Trading liabilities	(91,919)	(131,424)
	Total adjustments	857,647	(607,374)
	Net cash provided/(used) by operating activities	846,486	(514,704)
Investing Activities	Available for sale securities:		
	Sales	89,839	624,240
	Maturities	421,799	368,577
	Purchases	(313,613)	(469,738)
	Premises and equipment:		
	Purchases/(Sales)	11,738	(15,322)
	Net decrease in securitization retained interests classified as trading securities	35,276	-
	Net increase in loans	(176,354)	(367,402)
	Net increase in interest-bearing deposits with other financial institutions	(407)	(40,200)
	Cash payments related to divestitures	(113,300)	-

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	Net cash (used)/provided by investing activities	(45,022)	100,155
Financing Activities	Common stock:		
	Exercise of stock options	511	30,571
	Cash dividends paid	(25,220)	(112,085)
	Repurchase of shares	(214)	(1,096)
	Issuance of shares	659,762	-
	Excess tax benefit from stock-based compensation arrangements	(1,531)	6,029
	Long-term debt:		
	Issuance	25,002	1,076,909
	Payments	(180,762)	(227,604)
	Cash paid for repurchase of debt	(139,454)	-
	Issuance of preferred stock of subsidiary	-	8
	Repurchase of preferred stock of subsidiary	-	(1)
	Net increase/(decrease) in:		
	Deposits	(1,739,180)	1,548,452
	Short-term borrowings	345,265	(2,132,246)
	Net cash (used)/provided by financing activities	(1,055,821)	188,937
	Net decrease in cash and cash equivalents	(254,357)	(225,612)
Cash and cash equivalents at beginning of period	2,259,715	2,146,092	
Cash and cash equivalents at end of period	\$ 2,005,358	\$ 1,920,480	
Total interest paid	463,052	694,751	
Total income taxes paid	182,964	13,782	

See accompanying notes to consolidated condensed financial statements.

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

Note 1 - Financial Information

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. The operating results for the interim 2008 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 2007 Annual Report to shareholders.

Investment Securities. Venture capital investments are classified as securities available for sale and are carried at fair value. Upon adoption of Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157) on January 1, 2008, unrealized gains and losses on such securities are recognized prospectively in noninterest income. Prior to FHN's adoption of SFAS No. 157, venture capital investments were initially valued at cost based on their unmarketable nature. Subsequently, these investments were adjusted to reflect changes in valuation as a result of public offerings or other-than-temporary declines in value.

Loans Held for Sale and Securitization and Residual Interests. Loans originated or purchased for resale, together with mortgage loans previously sold which may be unilaterally called by FHN, are included in loans held for sale in the consolidated statements of condition. Effective January 1, 2008, upon adoption of Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159), FHN elected the fair value option on a prospective basis for almost all types of mortgage loans originated for sale purposes. Such loans are carried at fair value, with changes in the fair value of these loans recognized in the mortgage banking noninterest income section of the Consolidated Condensed Statements of Income. For mortgage loans originated for sale for which the fair value option is elected, loan origination fees are recorded by FHN when earned and related direct loan origination costs are recognized when incurred. Interests retained from the securitization of such loans are included as a component of trading securities on the Consolidated Condensed Statements of Condition, with related cash receipts and payments classified prospectively in investing activities on the Consolidated Condensed Statements of Cash Flows based on the purpose for which such financial assets were retained. See Note 13 – Fair Values of Assets and Liabilities for additional information.

FHN continues to account for all mortgage loans held for sale which were originated prior to 2008 and for mortgage loans held for sale for which fair value accounting has not been elected at the lower of cost or market value. For such loans, net origination fees and costs are deferred and included in the basis of the loans in calculating gains and losses upon sale. Gains and losses realized from the sale of these assets are included in noninterest income. Interests retained from the sale of such loans are included as a component of trading securities on the Consolidated Condensed Statements of Condition.

Accounting Changes. Effective January 1, 2008, FHN adopted SFAS No. 159 which allows an irrevocable election to measure certain financial assets and liabilities at fair value on an instrument-by-instrument basis, with unrealized gains and losses recognized currently in earnings. Under SFAS No. 159, the fair value option may only be elected at the time of initial recognition of a financial asset or liability or upon the occurrence of certain specified events. Additionally, SFAS No. 159 provides that application of the fair value option must be based on the fair value of an entire financial asset or liability and not selected risks inherent in those assets or liabilities. SFAS No. 159 requires that assets and liabilities which are measured at fair value pursuant to the fair value option be reported in the financial statements in a manner that separates those fair values from the carrying amounts of similar assets and liabilities which are measured using another measurement attribute. SFAS No. 159 also provides expanded disclosure requirements regarding the effects of electing the fair value option on the financial statements. Upon adoption of

SFAS No. 159, FHN elected the fair value option on a prospective basis for almost all types of mortgage loans originated for sale purposes. Additionally, in accordance with SFAS No. 159's amendment of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities", FHN began prospectively classifying cash flows associated with its retained interests in securitizations recognized as trading securities within investing activities in the Consolidated Condensed Statements of Cash Flows.

Effective January 1, 2008, FHN adopted SEC Staff Accounting Bulletin No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings" (SAB No. 109) prospectively for derivative loan commitments issued or modified after that date. SAB No. 109 rescinds SAB No. 105's prohibition on inclusion of expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. SAB No. 109 also applies to any loan commitments for which fair value accounting is elected under SFAS No. 159. FHN did not elect fair value accounting for any other loan commitments under SFAS No. 159.

Note 1 - Financial Information (continued)

The prospective application of SAB No. 109 and the prospective election to recognize substantially all new mortgage loan originations at fair value under SFAS No. 159 resulted in a positive impact of \$58.1 million on first quarter 2008 pre-tax earnings. This represents the estimated value of mortgage servicing rights included in (1) interest rate lock commitments entered into in first quarter 2008 that remained on the balance sheet at quarter end and (2) mortgage warehouse loans originated in first quarter 2008 accounted for at elected fair value which remained on the balance sheet at quarter end. Second quarter 2008 earnings were negatively impacted by \$20.9 million related to the adoption of SAB No. 109 and SFAS No. 159 as loans and commitments remaining on the balance sheet at the end of first quarter 2008 were sold.

Effective January 1, 2008, FHN adopted SFAS No. 157 for existing fair value measurement requirements related to financial assets and liabilities as well as to non-financial assets and liabilities which are remeasured at least annually. In February 2008, the FASB staff issued FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157" (FSP FAS 157-2), which delayed the effective date of SFAS No. 157 until fiscal years beginning after November 15, 2008, for non-financial assets and liabilities which are recognized at fair value on a non-recurring basis. SFAS No. 157 establishes a hierarchy to be used in performing measurements of fair value. Additionally, SFAS No. 157 emphasizes that fair value should be determined from the perspective of a market participant while also indicating that valuation methodologies should first reference available market data before using internally developed assumptions. SFAS No. 157 also provides expanded disclosure requirements regarding the effects of fair value measurements on the financial statements. Upon the adoption of the provisions of SFAS No. 157 for financial assets and liabilities as well as non-financial assets and liabilities remeasured at least annually on January 1, 2008, a negative after-tax cumulative-effect adjustment of \$12.5 million was made to the opening balance of undivided profits for interest rate lock commitments which FHN previously measured under the guidance of EITF 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities" (EITF 02-3). The effect of the change in accounting for these interest rate lock commitments produced a \$15.7 million negative effect on first quarter 2008 pre-tax earnings as the \$14.2 million positive effect of delivering the loans associated with the commitments existing at the beginning of the quarter was more than offset by a negative impact of \$29.9 million for commitments remaining on the balance sheet at quarter end that was previously deferred under EITF 02-3 until delivery of the associated loans. Second quarter 2008 earnings were positively impacted by a net of \$13.7 million related to the adoption of SFAS No. 157 as (1) FHN continued to deliver loans that had been commitments upon adoption of SFAS No. 157, (2) some commitments existing at March 31, 2008 were delivered as loans during the second quarter and (3) additional commitments that would have been deferred under EITF 02-3 were made. FHN continues to assess the financial impacts of applying the provisions of SFAS No. 157 to non-financial assets and liabilities which are recognized at fair value on a non-recurring basis.

Effective January 1, 2008, FHN adopted FASB Staff Position No. FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" (FSP FAS 157-1), which amends SFAS No. 157 to exclude Statement of Financial Accounting Standards No. 13, "Accounting for Leases" (SFAS No. 13), and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS No. 13 from its scope. The adoption of FSP FAS 157-1 had no effect on FHN's statement of condition or results of operations.

Effective January 1, 2008, FHN adopted EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" (EITF 06-4). EITF 06-4 requires that a liability be recognized for contracts written to employees which provide future postretirement benefits that are covered by endorsement split-dollar life insurance arrangements because such obligations are not considered to be effectively settled upon entering into the related insurance arrangements. FHN recognized a decrease to undivided profits of \$8.5 million, net of tax, upon adoption of EITF 06-4.

Effective January 1, 2008, FHN adopted FASB Staff Position No. FIN 39-1, "Amendment of FASB Interpretation No. 39" (FSP FIN 39-1). FSP FIN 39-1 permits the offsetting of fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. Upon adoption of FSP FIN 39-1, entities were permitted to change their previous accounting policy election to offset or not offset fair value amounts recognized for derivative instruments under master netting arrangements. FSP FIN 39-1 requires additional disclosures for derivatives and collateral associated with master netting arrangements, including the separate disclosure of amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral under master netting arrangements as of the end of each reporting period for entities that made an accounting policy decision to not offset fair value amounts. FHN retained its previous accounting policy election to not offset fair value amounts recognized for derivative instruments under master netting arrangements upon adoption of FSP FIN 39-1.

Note 1 - Financial Information (continued)

FHN also adopted FASB Statement 133 Implementation Issue No. E23, "Issues Involving the Application of the Shortcut Method under Paragraph 68" (DIG E23) as of January 1, 2008, for hedging relationships designated on or after such date. DIG E23 amends SFAS No. 133 to explicitly permit use of the shortcut method for hedging relationships in which an interest rate swap has a nonzero fair value at inception of the hedging relationship which is attributable solely to the existence of a bid-ask spread in the entity's principal market under SFAS No. 157. Additionally, DIG E23 allows an entity to apply the shortcut method to a qualifying fair value hedge when the hedged item has a trade date that differs from its settlement date because of generally established conventions in the marketplace in which the transaction to acquire or issue the hedged item is executed. Preexisting shortcut hedging relationships were analyzed as of DIG E23's adoption date to determine whether they complied with the revised shortcut criteria at their inception or should be dedesignated prospectively. The adoption of DIG E23 had no effect on FHN's financial position or results of operations as all of FHN's preexisting hedging relationships met the requirements of DIG E23 at their inception.

Effective January 1, 2007, FHN adopted Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments" (SFAS No. 155), which permits fair value remeasurement for 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. Under SFAS No. 155, all beneficial interests in a securitization require an assessment in accordance with SFAS No. 133 to determine if an embedded derivative exists within the instrument. In addition, effective January 1, 2007, FHN adopted Derivatives Implementation Group Issue B40, "Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets" (DIG B40). DIG B40 provides an exemption from the embedded derivative test of paragraph 13(b) of SFAS No. 133 for instruments that would otherwise require bifurcation if the test is met solely because of a prepayment feature included within the securitized interest and prepayment is not controlled by the security holder. Since FHN presents all retained interests in its proprietary securitizations as trading securities and due to the clarifying guidance of DIG B40, the impact of adopting SFAS No. 155 was immaterial to the results of operations.

Effective January 1, 2007, FHN adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) which provides guidance for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on the classification and disclosure of uncertain tax positions in the financial statements. Upon adoption of FIN 48, FHN recognized a cumulative effect adjustment to the beginning balance of undivided profits in the amount of \$.9 million for differences between the tax benefits recognized in the statements of condition prior to the adoption of FIN 48 and the amounts reported after adoption.

Effective January 1, 2007, FHN adopted EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance" (EITF 06-5). EITF 06-5 provides that in addition to cash surrender value, the asset recognized for a life insurance contract should consider certain other provisions included in a policy's contractual terms with additional amounts being discounted if receivable beyond one year. Additionally, EITF 06-5 requires that the determination of the amount that could be realized under an insurance contract be performed at the individual policy level. FHN recognized a reduction of undivided profits in the amount of \$.5 million as a result of adopting EITF 06-5.

Effective January 1, 2007, FHN elected early adoption of the final provisions of Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS No. 158), which required that the annual measurement date of a plan's assets and liabilities be as of the date of the financial statements. As a result of adopting the measurement date provisions of SFAS No. 158, total equity was increased by \$6.2 million on January 1, 2007, consisting of a reduction to undivided profits of \$2.1 million and a credit to accumulated other comprehensive income of \$8.3 million.

Accounting Changes Issued but Not Currently Effective. In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. As the GAAP hierarchy will reside in accounting literature established by the FASB upon adoption of SFAS No. 162, it will become explicitly and directly applicable to preparers of financial statements.

Note 1 - Financial Information (continued)

SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board's amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles". The adoption of SFAS No. 162 will have no effect on FHN's statement of condition or results of operations.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133" (SFAS No. 161). SFAS No. 161 requires enhanced disclosures related to derivatives accounted for in accordance with SFAS No. 133 and reconsiders existing disclosure requirements for such derivatives and any related hedging items. The disclosures provided in SFAS No. 161 will be required for both interim and annual reporting periods. SFAS No. 161 is effective prospectively for periods beginning after November 15, 2008. FHN is currently assessing the effects of adopting SFAS No. 161.

In February 2008, FASB Staff Position No. FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions" (FSP FAS 140-3), was issued. FSP FAS 140-3 permits a transferor and transferee to separately account for an initial transfer of a financial asset and a related repurchase financing that are entered into contemporaneously with, or in contemplation of, one another if certain specified conditions are met at the inception of the transaction. FSP FAS 140-3 requires that the two transactions have a valid and distinct business or economic purpose for being entered into separately and that the repurchase financing not result in the initial transferor regaining control over the previously transferred financial asset. FSP FAS 140-3 is effective prospectively for initial transfers executed in reporting periods beginning on or after November 15, 2008. FHN is currently assessing the financial impact of adopting FSP FAS 140-3.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141-R, "Business Combinations" (SFAS No. 141-R) and Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an Amendment of ARB No. 51" (SFAS No. 160). SFAS No. 141-R requires that an acquirer recognize the assets acquired and liabilities assumed in a business combination, as well as any noncontrolling interest in the acquiree, at their fair values as of the acquisition date, with limited exceptions. Additionally, SFAS No. 141-R provides that an acquirer cannot specify an effective date for a business combination that is separate from the acquisition date. SFAS No. 141-R also provides that acquisition-related costs which an acquirer incurs should be expensed in the period in which the costs are incurred and the services are received. SFAS No. 160 requires that acquired assets and liabilities be measured at full fair value without consideration to ownership percentage. Under SFAS No. 160, any non-controlling interests in an acquiree should be presented as a separate component of equity rather than on a mezzanine level. Additionally, SFAS No. 160 provides that net income or loss should be reported in the consolidated income statement at its consolidated amount, with disclosure on the face of the consolidated income statement of the amount of consolidated net income which is attributable to the parent and noncontrolling interests, respectively. SFAS No. 141-R and SFAS No. 160 are effective prospectively for periods beginning on or after December 15, 2008, with the exception of SFAS No. 160's presentation and disclosure requirements which should be retrospectively applied to all periods presented. FHN is currently assessing the financial impact of adopting SFAS No. 141-R and SFAS No. 160.

In June 2007, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 07-1, "Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies" (SOP 07-1), which provides guidance for determining whether an entity is within the scope of the AICPA's Investment Companies Guide. Additionally, SOP 07-1 provides certain criteria that must be met in order for investment company accounting applied by a subsidiary or equity method investee to be retained in the financial statements of the parent company or an equity method investor. SOP 07-1 also provides expanded disclosure requirements regarding the retention of such investment company accounting in the consolidated financial statements. In May 2007, FASB Staff Position No. FIN

46(R)- 7, “Application of FASB Interpretation No. 46(R) to Investment Companies” (FSP FIN 46(R)-7) was issued. FSP FIN 46(R)-7 amends FIN 46(R) to provide a permanent exception to its scope for companies within the scope of the revised Investment Companies Guide under SOP 07-1. In February 2008, the FASB issued FASB Staff Position No. SOP 07-1-1, “The Effective Date of AICPA Statement of Position 07-1” which indefinitely defers the effective date of SOP 07-1 and FSP FIN 46(R)-7.

Note 2 - Acquisitions/Divestitures

In June 2008, FHN announced that it had reached a definitive agreement with MetLife Bank, N.A. (“MetLife”), a wholly-owned subsidiary of MetLife, Inc., for the sale of more than 230 retail and wholesale mortgage origination offices nationwide as well as its loan origination and servicing platform. As part of the transaction, MetLife will acquire substantially all of FHN’s mortgage origination pipeline, related hedges and certain fixed assets, including software, but will not acquire any portion of FHN’s mortgage loan warehouse. First Horizon will retain its mortgage operations in and around Tennessee, continuing to originate home loans for customers in its banking market footprint. FHN also agreed with MetLife for the sale of servicing assets, and related hedges, on approximately \$20 billion of first lien mortgage loans and associated custodial deposits. Additionally, FHN has entered into a subservicing agreement with MetLife for the remainder of FHN’s servicing portfolio. The transaction is expected to close in third quarter 2008. MetLife has agreed to pay book value for the assets and liabilities it is acquiring, subject to adjustment as discussed below. The assets and liabilities related to the mortgage operations being divested are included in the Mortgage Banking segment and are reflected as “divestiture” on the Consolidated Condensed Statements of Condition for the reporting period ending June 30, 2008.

As part of the pending transaction with Metlife, FHN has agreed to a purchase price reduction of up to \$10.0 million. To the extent that prior to the closing date FHN incurs certain specified costs, then the purchase price adjustment is to decrease by the amount of such costs. The purchase price adjustment will be decreased by \$1.0 million for each month that the closing date is delayed past August 31, 2008 for certain reasons other than First Horizon’s breach of closing conditions or the failure to obtain the approval of the Government National Mortgage Association, up to \$5.0 million maximum reduction of the purchase price adjustment. FHN currently expects the transaction to close in third quarter 2008.

Due to efforts initiated by FHN in 2007 to improve profitability, in July 2007 management decided to pursue the sale, closure, or consolidation of 34 full-service First Horizon Bank branches in Atlanta, Baltimore, Dallas and Northern Virginia. In September 2007, it was announced that agreements for the sale of all 34 of the branches had been reached. Aggregate gains of \$15.7 million were recognized in fourth quarter 2007 from the disposition of 15 of the branches. Additionally, losses of \$1.0 million and \$0.4 million were recognized in the first and second quarters of 2008, respectively, from the disposition of the remaining First Horizon Bank branches. These transactions resulted in the transfer of certain loans, certain fixed assets (including branch locations) and assumption of all the deposit relationships of the First Horizon Bank branches that were divested. The assets and liabilities related to the First Horizon Bank branches were included in the Regional Banking segment and were reflected as “divestiture” on the Consolidated Condensed Statements of Condition for reporting periods ending prior to June 30, 2008. The losses realized in the first and second quarters of 2008 from the disposition of First Horizon Bank branches are included in the noninterest income section of the Consolidated Condensed Statements of Income as losses on divestitures.

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.

Note 3 - Loans

The composition of the loan portfolio is detailed below:

(Dollars in thousands)	June 30 2008	2007	December 31 2007
Commercial:			
Commercial, financial and industrial	\$ 7,717,110	\$ 7,218,582	\$ 7,140,087
Real estate commercial	1,463,726	1,389,963	1,294,922
Real estate construction	2,271,533	2,830,856	2,753,475
Retail:			
Real estate residential	8,196,622	7,614,887	7,791,885
Real estate construction	1,513,845	2,158,775	2,008,289
Other retail	138,970	149,157	144,019
Credit card receivables	195,703	194,715	204,812
Real estate loans pledged against other collateralized borrowings	727,723	825,368	766,027
Loans, net of unearned income	22,225,232	22,382,303	22,103,516
Allowance for loan losses	575,149	229,919	342,341
Total net loans	\$ 21,650,083	\$ 22,152,384	\$ 21,761,175

Nonperforming loans consist of loans which management has identified as impaired, other nonaccrual loans and loans which have been restructured. On June 30, 2008 and 2007, there were no significant outstanding commitments to advance additional funds to customers whose loans had been restructured. The following table presents nonperforming loans on:

(Dollars in thousands)	2008	June 30 2007	December 31 2007
Impaired loans	\$ 372,494	\$ 50,761	\$ 126,612
Other nonaccrual loans*	397,524	89,747	180,475
Total nonperforming loans	\$ 770,018	\$ 140,508	\$ 307,087

*On June 30, 2008 and 2007, and on December 31, 2007, other nonaccrual loans included \$9.9 million, \$12.5 million, and \$23.8 million, respectively, of loans held for sale.

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

Generally, interest payments received on impaired loans are applied to principal. Once all principal has been received, additional payments are recognized as interest income on a cash basis. The following table presents information concerning impaired loans:

(Dollars in thousands)	Three Months Ended June 30	
	2008	2007
Total interest on impaired loans	\$ 198	\$ 154
Average balance of impaired loans	273,521	39,042

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

Activity in the allowance for loan losses related to non-impaired loans, impaired loans, and for the total allowance for the three months ended June 30, 2008 and 2007, is summarized as follows:

(Dollars in thousands)	Non-impaired	Impaired	Total
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Balance on December 31, 2006	\$	206,292	\$	9,993	\$	216,285
Provision for loan losses		57,582		15,312		72,894
Divestitures/acquisitions/transfers		(9,671)		-		(9,671)
Charge-offs		(41,661)		(14,497)		(56,158)
Recoveries		5,900		669		6,569
Net charge-offs		(35,761)		(13,828)		(49,589)
Balance on June 30, 2007	\$	218,442	\$	11,477	\$	229,919
Balance on December 31, 2007	\$	325,297	\$	17,044	\$	342,341
Provision for loan losses		379,364		80,636		460,000
Divestitures/acquisitions/transfers		(382)		-		(382)
Charge-offs		(140,331)		(92,810)		(233,141)
Recoveries		5,848		483		6,331
Net charge-offs		(134,483)		(92,327)		(226,810)
Balance on June 30, 2008	\$	569,796	\$	5,353	\$	575,149

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

Note 4 - Mortgage Servicing Rights

FHN recognizes all its classes of mortgage servicing rights (MSR) at fair value. 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. The balance of MSR included on the Consolidated Condensed Statements of Condition represents the rights to service approximately \$98.2 billion of mortgage loans on June 30, 2008, for which a servicing right has been capitalized.

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 with brokers, service providers, and recent market activity and against its own experience. Due to ongoing disruptions in the mortgage market, since third quarter 2007, more emphasis has been placed on third party broker price discovery and, when available, observable market trades in valuation modeling for MSR.

Following is a summary of changes in capitalized MSR as of June 30, 2008 and 2007:

(Dollars in thousands)	First Liens	Second Liens	HELOC
Fair value on January 1, 2007	\$ 1,495,215	\$ 24,091	\$ 14,636
Addition of mortgage servicing rights	185,257	7,995	1,832
Reductions due to loan payments	(124,359)	(4,547)	(2,837)
Changes in fair value due to:			
Changes in current market interest rates	100,215	66	-
Reclassification to trading assets	(174,547)	-	-
Other changes in fair value	(54)	3	-
Fair value on June 30, 2007	\$ 1,481,727	\$ 27,608	\$ 13,631
Fair value on January 1, 2008	\$ 1,122,415	\$ 25,832	\$ 11,573
Addition of mortgage servicing rights	179,176	-	1,102
Reductions due to loan payments	(76,046)	(4,354)	(1,198)
Reductions due to sale	(116,113)	-	-
Changes in fair value due to:			
Changes in valuation model inputs or assumptions	1,814	(3,343)	(2,165)
Other changes in fair value	(42)	3	741
Fair value on June 30, 2008	\$ 1,111,204	\$ 18,138	\$ 10,053

In conjunction with capital management initiatives, FHN modified Pooling and Servicing Agreements (PSA) on its private securitizations during the second quarter of 2007 to segregate the retained yield component from the master servicing fee. The retained yield of \$174.5 million was reclassified from mortgage servicing rights to trading securities on the Consolidated Condensed Statements of Condition.

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, 2006	\$ 275,582	\$ 64,530
Amortization expense	-	(5,448)
Divestitures	-	(60)
Additions**	4,243	2,925
June 30, 2007	\$ 279,825	\$ 61,947
December 31, 2007	\$ 192,408	\$ 56,907
Amortization expense	-	(4,622)
Impairment	-	(4,034)
Divestitures	-	(26)
Additions**	-	390
June 30, 2008	\$ 192,408	\$ 48,615

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

** Preliminary purchase price allocations on acquisitions are based upon estimates of fair value and are subject to change.

The gross carrying amount of other intangible assets subject to amortization is \$133.6 million on June 30, 2008, net of \$85.0 million of accumulated amortization. Estimated aggregate amortization expense for the remainder of 2008 is expected to be \$3.6 million and is expected to be, \$6.1 million, \$5.8 million, \$5.6 million and \$4.2 million for the twelve-month periods of 2009, 2010, 2011 and 2012, respectively.

The following is a summary of goodwill detailed by reportable segments for the six months ended June 30:

(Dollars in thousands)	Regional Banking	Mortgage Banking	Capital Markets	Total
December 31, 2006	\$ 94,276	\$ 66,240	\$ 115,066	\$ 275,582
Additions*	-	4,243	-	4,243
June 30, 2007	\$ 94,276	\$ 70,483	\$ 115,066	\$ 279,825
December 31, 2007	\$ 77,342	\$ -	\$ 115,066	\$ 192,408
June 30, 2008	\$ 77,342	\$ -	\$ 115,066	\$ 192,408

* Preliminary purchase price allocations on acquisitions are based upon estimates of fair value and are subject to change.

Note 6 - 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 June 30, 2008, 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 13.87 percent, 9.90 percent and 8.10 percent, respectively, on June 30, 2008, and were 11.73 percent, 8.11 percent and 6.65 percent, respectively, on June 30, 2007.

(Dollars in thousands)	First Horizon National Corporation		First Tennessee Bank National Association	
	Amount	Ratio	Amount	Ratio
On June 30, 2008:				
Actual:				
Total Capital	\$ 4,376,408	15.15%	\$ 4,195,535	14.65%
Tier 1 Capital	3,034,698	10.51	2,936,767	10.25
Leverage	3,034,698	8.45	2,936,767	8.24
For Capital Adequacy Purposes:				
Total Capital	2,310,774	> 8.00	2,291,784	> 8.00
Tier 1 Capital	1,155,387	> 4.00	1,145,892	> 4.00
Leverage	1,436,005	> 4.00	1,425,665	> 4.00
To Be Well Capitalized Under Prompt Corrective Action Provisions:				
Total Capital			2,864,730	> 10.00
Tier 1 Capital			1,718,838	> 6.00
Leverage			1,782,082	> 5.00
On June 30, 2007:				
Actual:				
Total Capital	\$ 4,027,528	12.90%	\$ 3,797,809	12.31%
Tier 1 Capital	2,711,329	8.68	2,581,611	8.37
Leverage	2,711,329	7.00	2,581,611	6.72
For Capital Adequacy Purposes:				
Total Capital	2,497,928	> 8.00	2,468,136	> 8.00
Tier 1 Capital	1,248,964	> 4.00	1,234,068	> 4.00
Leverage	1,549,325	> 4.00	1,537,335	> 4.00
To Be Well Capitalized Under Prompt				

Corrective Action Provisions:

Total Capital	3,085,170	>	10.00
Tier 1 Capital	1,851,102	>	6.00
Leverage	1,921,669	>	5.00

Note 7 - 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 June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Net (loss)/income from continuing operations	\$ (19,081)	\$ 21,944	\$ (12,044)	\$ 92,251
Income from discontinued operations, net of tax	-	179	883	419
Net (loss)/income	\$ (19,081)	\$ 22,123	\$ (11,161)	\$ 92,670
Weighted average common shares	171,680	125,873	148,898	125,609
Effect of dilutive securities	-	2,864	-	3,111
Diluted average common shares	171,680	128,737	148,898	128,720
Earnings/(loss) per common share				
Net (loss)/income from continuing operations	\$ (.11)	\$.18	\$ (.08)	\$.74
Income from discontinued operations, net of tax	-	-	.01	-
Earnings/(loss) per common share	\$ (.11)	\$.18	\$ (.07)	\$.74
Diluted earnings/(loss) per common share				
Net (loss)/income from continuing operations	\$ (.11)	\$.17	\$ (.08)	\$.72
Income from discontinued operations, net of tax	-	-	.01	-
Diluted earnings/(loss) per common share	\$ (.11)	\$.17	\$ (.07)	\$.72

Equity awards of 16,797 and 7,850 with weighted average exercise prices of \$33.67 and \$42.62 per share for the three months ended June 30, 2008 and 2007, respectively, and of 8,175 and 5,843 with weighted average exercise prices of \$34.67 and \$42.46 per share for the six months ended June 30, 2008 and 2007, 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.

Note 8 - 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 is of the 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 concerned the charging of certain loan origination fees, including fees permitted by Kansas and federal 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 sought a refund of fees, a repayment and forgiveness of loan interest, prejudgment interest, punitive damages, loan rescission, and attorneys' fees. As a result of mediation, FHN entered into a final settlement agreement related to the McGuire lawsuit. The settlement has received final approval by the court, the court has entered its order making the settlement final, there have been no appeals, and the time for any appeals has expired. In connection with this settlement, FHN agreed to pay, under agreed circumstances using an agreed methodology, an aggregate of up to approximately \$36 million. The period during which claims under the settlement can be made ended in 2007. Claims have been evaluated and objections made pursuant to the agreed upon challenge process. The challenge process has not yet concluded. Unchallenged claims have been paid, and as claims are paid, the reserve is reduced. At June 30, 2008, claims paid have totaled approximately \$27 million and the total reserve remaining for this matter, based on the claims received and FHN's evaluation of them to date, is approximately \$3.7 million.

The loss reserve for this matter reflects an estimate of the amount that ultimately would be paid under the settlement. The amount reserved reflects the amount and value of claims actually received by the claims deadline plus fees and expenses that the settlement requires FHN to pay, all of which together are less than the maximum amount possible under the settlement. The ultimate amount paid under the settlement agreement is not expected to be higher than the amount reserved at present, and may be lower in the event some of the claims are reduced or rejected for reasons set forth in the settlement, and in any event cannot exceed the settlement amount.

Other disclosures – Indemnification agreements and guarantees. In the ordinary course of business, FHN enters into indemnification agreements for legal proceedings against its directors and officers and standard representations and warranties for underwriting agreements, merger and acquisition agreements, loan sales, contractual commitments, and various other business transactions or arrangements. The extent of FHN's obligations under these agreements depends upon the occurrence of future events; therefore, it is not possible to estimate a maximum potential amount of payouts that could be required with such agreements.

FHN is a member of the Visa USA network. On October 3, 2007, the Visa organization of affiliated entities completed a series of global restructuring transactions to combine its affiliated operating companies, including Visa USA, under a single holding company, Visa Inc. ("Visa"). Upon completion of the reorganization, the members of the Visa USA network remained contingently liable for certain Visa litigation matters. Based on its proportionate membership share of Visa USA, FHN recognized a contingent liability of \$55.7 million within noninterest expense in fourth quarter 2007 related to this contingent obligation.

In March 2008, Visa completed its initial public offering (IPO). Visa funded an escrow account from IPO proceeds that will be used to make payments related to the Visa litigation matters. Upon funding of the escrow, FHN reversed \$30.0 million of the contingent liability previously recognized with a corresponding credit to noninterest expense for its proportionate share of the escrow account. A portion of FHN's Class B shares of Visa were redeemed as part of the IPO resulting in \$65.9 million of equity securities gains in first quarter 2008.

After the partial share redemption in conjunction with the IPO, FHN holds approximately 2.4 million Class B shares of Visa, which are included in the Consolidated Condensed Statement of Condition at their historical cost of

\$0. Transfer of these shares is restricted for a minimum of three years with the shares ultimately being converted into Class A shares of Visa. The final conversion ratio, which is presently estimated to approximate 70 percent, will fluctuate based on the ultimate settlement of the Visa litigation matters for which FHN has a proportionate contingent obligation.

First Horizon Home Loans, a division of First Tennessee Bank National Association, services a mortgage loan portfolio of \$102.7 billion on June 30, 2008, 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.

Note 8 - Contingencies and Other Disclosures (continued)

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 \$38.5 million and \$14.6 million on June 30, 2008 and 2007, respectively. First Horizon Home Loans has sold certain mortgage loans with an agreement to repurchase the loans upon default. 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. On June 30, 2008 and 2007, First Horizon Home Loans had single-family residential loans with outstanding balances of \$92.4 million and \$110.5 million, respectively, that were serviced on a full recourse basis. On June 30, 2008 and 2007, the outstanding principal balance of loans sold with limited recourse arrangements where some portion of the principal is at risk and serviced by First Horizon Home Loans was \$3.6 billion and \$3.2 billion, respectively. Additionally, on June 30, 2008 and 2007, \$1.8 billion and \$4.8 billion, respectively, of mortgage loans were outstanding which were sold under limited recourse arrangements where the risk is limited to interest and servicing advances.

FHN has securitized and sold HELOC and second-lien mortgages which are held by private security holders, and on June 30, 2008, the outstanding principal balance of these loans was \$231.3 million and \$61.4 million, respectively. On June 30, 2007, the outstanding principal balance of securitized and sold HELOC and second-lien mortgages was \$303.1 million and \$82.5 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 \$7.8 million and \$33.7 million on June 30, 2008 and 2007, 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 9 – 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 division 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. The Pension Plan was closed to new participants on September 1, 2007.

FHN also maintains nonqualified pension plans for certain employees. These plans are intended to provide supplemental retirement income to the participants including situations where benefits under the pension plan have been limited under the tax code. All benefits provided under these plans 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) introduced 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. FHN anticipates the plan to be actuarially equivalent through 2012.

Effective January 1, 2007, FHN adopted the final provisions of SFAS No. 158, which required that the annual measurement date of a plan's assets and liabilities be as of the date of the financial statements. As a result of adopting the measurement provisions of SFAS No. 158, undivided profits were reduced by \$2.1 million, net of tax, and accumulated other comprehensive income was credited by \$8.3 million, net of tax.

The components of net periodic benefit cost for the three months ended June 30 are as follows:

(Dollars in thousands)	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Components of net periodic benefit cost/(benefit)				
Service cost	\$ 4,206	\$ 4,327	\$ 71	\$ 75
Interest cost	7,345	6,154	610	278
Expected return on plan assets	(11,792)	(10,637)	(439)	(441)
Amortization of prior service cost/(benefit)	216	220	(44)	(44)
Recognized losses/(gains)	494	1,810	(58)	(178)
Amortization of transition obligation	-	-	247	247
Net periodic cost/(benefit)	\$ 469	\$ 1,874	\$ 387	\$ (63)
FAS 88 Settlement Expense	\$ 715	\$ -	\$ -	\$ -
Total FAS 87 and FAS 88 Expense (Income)	\$ 1,184	\$ 1,874	\$ 387	\$ (63)

The components of net periodic benefit cost for the six months ended June 30 are as follows:

(Dollars in thousands)	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Components of net periodic benefit cost/(benefit)				
Service cost	\$ 8,414	\$ 8,654	\$ 143	\$ 150
Interest cost	14,685	12,308	1,220	556
Expected return on plan assets	(23,583)	(21,274)	(878)	(882)
Amortization of prior service cost/(benefit)	433	440	(88)	(88)
Recognized losses/(gains)	987	3,620	(116)	(356)
Amortization of transition obligation	-	-	494	494
Net periodic cost/(benefit)	\$ 936	\$ 3,748	\$ 775	\$ (126)
FAS 88 Settlement Expense	\$ 715	\$ -	\$ -	\$ -
Total FAS 87 and FAS 88 Expense (Income)	\$ 1,651	\$ 3,748	\$ 775	\$ (126)

In second quarter 2008, distributions from a non-qualified postretirement plan in conjunction with an early retirement triggered settlement accounting. In accordance with its practice, FHN performed a remeasurement of the plan in conjunction with the settlement and recognized \$.7 million of settlement expense.

FHN expects to make no contributions to the pension plan or to the other employee benefit plans in 2008.

Note 10 – Business Segment Information

FHN has five business segments, Regional Banking, Capital Markets, National Specialty Lending, Mortgage Banking and Corporate. The Regional Banking segment offers financial products and services, including traditional lending and deposit taking, to retail and commercial customers in Tennessee and surrounding markets. Additionally, Regional Banking provides investments, insurance, financial planning, trust services and asset management, credit card, cash management, and check clearing services. The Capital Markets segment consists of traditional capital markets securities activities, structured finance, equity research, investment banking, loan sales, portfolio advisory, and correspondent banking. The National Specialty Lending segment consists of traditional consumer and construction lending activities in other national markets. The Mortgage Banking segment consists of core mortgage banking elements including originations and servicing and the associated ancillary revenues related to these businesses. The Corporate segment consists of restructuring, repositioning and efficiency initiatives, gains and losses on repurchases of debt, 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, revenue and expense associated with deferred compensation plans, funds management, and venture capital. Periodically, FHN adapts its segments to reflect changes in expense allocations among segments. Previously reported amounts have been reclassified to agree with current presentation.

In first quarter 2008, FHN revised its business line segments to better align with its strategic direction, representing a focus on its regional banking franchise and capital markets business. To implement this change, the prior Retail/Commercial Banking segment was split into its major components with the national portions of consumer lending and construction lending assigned to a new National Specialty Lending segment that more appropriately reflects the ongoing wind down of these businesses. Additionally, correspondent banking was shifted from Retail/Commercial Banking to the Capital Markets segment to better represent the complementary nature of these businesses. To reflect its geographic focus, the remaining portions of the Retail/Commercial Banking segment now represent the new Regional Banking segment. All prior period information has been revised to conform to the current segment structure.

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 and six months ended June 30:

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Total Consolidated				
Net interest income	\$ 238,895	\$ 239,432	\$ 466,987	\$ 476,851
Provision for loan losses	220,000	44,408	460,000	72,894
Noninterest income	399,046	280,299	848,122	563,487
Noninterest expense	465,843	457,240	904,120	860,252
Pre-tax (loss)/income	(47,902)	18,083	(49,011)	107,192
(Benefit)/provision for income taxes	(28,821)	(3,861)	(36,967)	14,941
(Loss)/income from continuing operations	(19,081)	21,944	(12,044)	92,251
Income from discontinued operations, net of tax	-	179	883	419
Net (loss)/income	\$ (19,081)	\$ 22,123	\$ (11,161)	\$ 92,670
Average assets	\$ 36,146,101	\$ 39,070,144	\$ 36,654,243	\$ 38,859,763
Regional Banking				
Net interest income	\$ 120,384	\$ 137,672	\$ 240,949	\$ 276,599

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Provision for loan losses	89,371	14,071	164,549	28,275
Noninterest income	92,536	91,629	179,607	180,258
Noninterest expense	150,294	161,336	300,817	317,655
Pre-tax (loss)/income	(26,745)	53,894	(44,810)	110,927
(Benefit)/provision for income taxes	(19,799)	11,826	(33,307)	26,446
(Loss)/income from continuing operations	(6,946)	42,068	(11,503)	84,481
Income from discontinued operations, net of tax	-	179	883	419
Net (loss)/income	\$ (6,946)	\$ 42,247	\$ (10,620)	\$ 84,900
Average assets	\$ 12,092,608	\$ 12,345,139	\$ 12,161,732	\$ 12,307,934

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

Note 10 – Business Segment Information (continued)

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Capital Markets				
Net interest income	\$ 18,493	\$ 13,693	\$ 38,142	\$ 24,422
Provision for loan losses	18,522	3,673	33,553	4,835
Noninterest income	124,657	92,997	258,587	184,305
Noninterest expense	100,559	80,480	216,287	167,099
Pre-tax income	24,069	22,537	46,889	36,793
Provision for income taxes	8,960	8,411	17,397	13,698
Net income	\$ 15,109	\$ 14,126	\$ 29,492	\$ 23,095
Average assets	\$ 5,379,946	\$ 6,182,294	\$ 5,602,709	\$ 6,127,691
National Specialty Lending				
Net interest income	\$ 53,555	\$ 59,438	\$ 107,944	\$ 123,994
Provision for loan losses	108,106	19,104	257,675	32,231
Noninterest income	\$ (14,503)	12,448	\$ (13,852)	24,447
Noninterest expense	26,675	38,212	51,821	73,391
Pre-tax (loss)/income	(95,729)	14,570	(215,404)	42,819
(Benefit)/provision for income taxes	(33,567)	5,987	(79,959)	15,869
Net (loss)/income	\$ (62,162)	\$ 8,583	\$ (135,445)	\$ 26,950
Average assets	\$ 8,823,976	\$ 9,730,084	\$ 9,075,058	\$ 9,703,643
Mortgage Banking				
Net interest income	\$ 31,835	\$ 28,382	\$ 61,887	\$ 48,978
Provision for loan losses	4,001	(112)	4,223	(119)
Noninterest income	190,462	74,945	358,476	151,654
Noninterest expense	149,062	115,461	296,605	220,701
Pre-tax income/(loss)	69,234	(12,022)	119,535	(19,950)
(Benefit)/provision for income taxes	22,960	(6,854)	41,089	(17,287)
Net (loss)/income	\$ 46,274	\$ (5,168)	\$ 78,446	\$ (2,663)
Average assets	\$ 6,233,993	\$ 6,784,982	\$ 6,176,396	\$ 6,501,498
Corporate				
Net interest income	\$ 14,628	\$ 247	\$ 18,065	\$ 2,858
Provision for loan losses	-	7,672	-	7,672
Noninterest income	5,894	8,280	65,304	22,823
Noninterest expense	39,253	61,751	38,590	81,406
Pre-tax (loss)/income	(18,731)	(60,896)	44,779	(63,397)
(Benefit)/provision for income taxes	(7,375)	(23,231)	17,813	(23,785)
Net (loss)/income	\$ (11,356)	\$ (37,665)	\$ 26,966	\$ (39,612)
Average assets	\$ 3,615,578	\$ 4,027,645	\$ 3,638,348	\$ 4,218,997

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

Note 11 – Derivatives

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

Credit risk represents the potential loss that may occur because a party to a transaction fails to perform according to the terms of the contract. The measure of credit exposure is the replacement cost of contracts with a positive fair value. FHN manages credit risk by entering into financial instrument transactions through national exchanges, primary dealers or approved counterparties, and using mutual margining agreements whenever possible to limit potential exposure. With exchange-traded contracts, the credit risk is limited to the clearinghouse used. For non-exchange traded instruments, credit risk may occur when there is a gain in the fair value of the financial instrument and the counterparty fails to perform according to the terms of the contract and/or when the collateral proves to be of insufficient value. Market risk represents the potential loss due to the decrease in the value of a financial instrument caused primarily by changes in interest rates, mortgage loan prepayment speeds or the prices of debt instruments. FHN manages market risk by establishing and monitoring limits on the types and degree of risk that may be undertaken. FHN continually measures this risk through the use of models that measure value-at-risk and earnings-at-risk.

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

Derivative instruments are recorded on the Consolidated Condensed Statements of Condition as other assets or other liabilities measured at fair value. Fair value is defined as the price that would be received to sell a derivative asset or paid to transfer a derivative liability in an orderly transaction between market participants on the transaction date. Fair value is determined using available market information and appropriate valuation methodologies. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability are recognized currently in earnings. For a cash flow hedge, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded in accumulated other comprehensive income and subsequently reclassified to earnings as the hedged transaction impacts net income. Any ineffective portion of a cash flow hedge is recognized currently in earnings. For freestanding derivative instruments, changes in fair value are recognized currently in earnings. Cash flows from derivative contracts are reported as operating activities on the Consolidated Condensed Statements of Cash Flows.

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

time.

On June 30, 2008, FHN had approximately \$25.2 million of cash receivables and \$30.3 million of cash payables related to collateral posting under master netting arrangements with derivative counterparties.

Mortgage Banking

Mortgage banking interest rate lock commitments are short-term commitments to fund mortgage loan applications in process (the pipeline) for a fixed term at a fixed price. During the term of an interest rate lock commitment, First Horizon Home Loans has the risk that interest rates will change from the rate quoted to the borrower. First Horizon Home Loans enters into forward sales and futures contracts as economic hedges designed to protect the value of the interest rate lock commitments from changes in value due to changes in interest rates. Under SFAS No. 133, interest rate lock commitments qualify as derivative financial instruments and as such do not qualify for hedge accounting treatment. As a result,

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Note 11 – Derivatives (continued)

the interest rate lock commitments are recorded at fair value with changes in fair value recorded in current earnings as gain or loss on the sale of loans in mortgage banking noninterest income. Prior to adoption of SAB No.109 fair value excluded the value of associated servicing rights. Additionally, on January 1, 2008, FHN adopted SFAS No. 157 which affected the valuation of interest rate lock commitments previously measured under the guidance of the EITF 02-03 by requiring recognition of concessions upon entry into the lock. Changes in the fair value of the derivatives that serve as economic hedges of interest rate lock commitments are also included in current earnings as a component of gain or loss on the sale of loans in mortgage banking noninterest income.

First Horizon Home Loans' warehouse (mortgage loans held for sale) is subject to changes in fair value, due to fluctuations in interest rates from the loan closing date through the date of sale of the loan into the secondary market. Typically, the fair value of the warehouse declines in value when interest rates increase and rises in value when interest rates decrease. To mitigate this risk, First Horizon Home Loans enters into forward sales contracts and futures contracts to provide an economic hedge against those changes in fair value on a significant portion of the warehouse. These derivatives are recorded at fair value with changes in fair value recorded in current earnings as a component of the gain or loss on the sale of loans in mortgage banking noninterest income.

FHN adopted SFAS No. 159 on January 1, 2008. As discussed below, prior to adoption of SFAS No. 159, all warehouse loans were carried at the lower of cost or market, where carrying value was adjusted for successful hedging under SFAS No. 133 and the comparison of carrying value to market was performed for aggregate loan pools. To the extent that these interest rate derivatives were designated to hedge specific similar assets in the warehouse and prospective analyses indicate that high correlation was expected, the hedged loans were considered for hedge accounting under SFAS No. 133. Anticipated correlation was determined by projecting a dollar offset relationship for each tranche based on anticipated changes in the fair value of the hedged mortgage loans and the related derivatives, in response to various interest rate shock scenarios. Hedges were reset daily and the statistical correlation was calculated using these daily data points. Retrospective hedge effectiveness was measured using the regression correlation results. First Horizon Home Loans generally maintained a coverage ratio (the ratio of expected change in the fair value of derivatives to expected change in the fair value of hedged assets) of approximately 100 percent on warehouse loans hedged under SFAS No. 133. Effective SFAS No. 133 hedging resulted in adjustments to the recorded value of the hedged loans. These basis adjustments, as well as the change in fair value of derivatives attributable to effective hedging, were included as a component of the gain or loss on the sale of loans in mortgage banking noninterest income. Warehouse loans qualifying for SFAS No. 133 hedge accounting treatment totaled \$2.6 billion on June 30, 2007. There were no warehouse loans qualifying for SFAS No. 133 hedge accounting treatment at June 30, 2008. The balance sheet impact of the related derivatives was net assets of \$20.0 million on June 30, 2007. Net losses of \$1.6 million representing the ineffective portion of these fair value hedges were recognized as a component of gain or loss on sale of loans for the six months ended June 30, 2007.

Upon adoption of SFAS No. 159, FHN elected to prospectively account for substantially all of its mortgage loan warehouse products at fair value upon origination and correspondingly discontinued the application of SFAS No. 133 hedging relationships for all new originations. First Horizon Home Loans enters into forward sales and futures contracts to provide an economic hedge against changes in fair value on a significant portion of the warehouse.

In accordance with SFAS No. 156, First Horizon revalues MSR to current fair value each month. Changes in fair value are included in servicing income in mortgage banking noninterest income. First Horizon Home Loans also enters into economic hedges of the MSR to minimize the effects of loss in value of MSR associated with increased prepayment activity that generally results from declining interest rates. In a rising interest rate environment, the value of the MSR generally will increase while the value of the hedge instruments will decline. First Horizon Home Loans enters into interest rate contracts (including swaps, swaptions, and mortgage forward sales contracts) to hedge against the effects of changes in fair value of its MSR. Substantially all capitalized MSR are hedged for economic purposes.

First Horizon Home Loans utilizes derivatives (including swaps, swaptions, and mortgage forward sales contracts) that change in value inversely to the movement of interest rates to protect the value of its interest-only securities as an economic hedge. Changes in the fair value of these derivatives are recognized currently in earnings in mortgage banking noninterest income as a component of servicing income.

Interest-only securities are included in trading securities with changes in fair value recognized currently in earnings in mortgage banking noninterest income as a component of servicing income.

Capital Markets

Capital Markets trades U.S. Treasury, U.S. Agency, mortgage-backed, corporate and municipal fixed income securities, and other securities for distribution to customers. When these securities settle on a delayed basis, they are considered forward contracts. Capital Markets also

Note 11 – Derivatives (continued)

enters into interest rate contracts, including options, caps, swaps, and floors for its customers. In addition, Capital Markets enters into futures contracts to economically hedge interest rate risk associated with a portion of its securities inventory. These transactions are measured at fair value, with changes in fair value recognized currently in capital markets noninterest income. Related assets and liabilities are recorded on the balance sheet as other assets and other liabilities. Credit risk related to these transactions is controlled through credit approvals, risk control limits and ongoing monitoring procedures through the Credit Risk Management Committee.

As of June 30, 2008, Capital Markets hedged \$244.6 million of held-to-maturity trust preferred securities, which have an initial fixed rate term of five years before conversion to a floating rate. Capital Markets has entered into pay fixed, receive floating interest rate swaps to hedge the interest rate risk associated with this initial five year term. The balance sheet impact of those swaps was \$6.8 million in other liabilities on June 30, 2008. Interest paid or received for these swaps was recognized as an adjustment of the interest income of the assets whose risk is being hedged.

Interest Rate Risk Management

FHN's ALCO focuses on managing market risk by controlling and limiting earnings volatility attributable to changes in interest rates. Interest rate risk exists to the extent that interest-earning assets and liabilities have different maturity or repricing characteristics. FHN uses derivatives, including swaps, caps, options, and collars, that are designed to moderate the impact on earnings as interest rates change. FHN's interest rate risk management policy is to use derivatives not to speculate but to hedge interest rate risk or market value of assets or liabilities. In addition, FHN has entered into certain interest rate swaps and caps as a part of a product offering to commercial customers with customer derivatives paired with offsetting market instruments that, when completed, are designed to eliminate market risk. These contracts do not qualify for hedge accounting and are measured at fair value with gains or losses included in current earnings in noninterest income.

FHN had entered into pay floating, receive fixed interest rate swaps to hedge the interest rate risk of certain large institutional certificates of deposit, totaling \$61.9 million on June 30, 2007. These swaps matured in first quarter 2008 and had been accounted for as fair value hedges under the shortcut method. The balance sheet impact of these swaps was \$.6 million in other liabilities on June 30, 2007. Interest paid or received for these swaps was recognized as an adjustment of the interest expense of the liabilities whose risk was being managed.

FHN has entered into pay floating, receive fixed interest rate swaps to hedge the interest rate risk of certain long-term debt obligations, totaling \$1.2 billion and \$1.1 billion on June 30, 2008 and 2007, respectively. These swaps have been accounted for as fair value hedges under the shortcut method. The balance sheet impact of these swaps was \$29.1 million in other assets on June 30, 2008, and \$41.5 million in other liabilities on June 30, 2007. Interest paid or received for these swaps was recognized as an adjustment of the interest expense of the liabilities whose risk was being managed.

FHN designates derivative transactions in hedging strategies to manage interest rate risk on subordinated debt related to its trust preferred securities. These qualify for hedge accounting under SFAS No. 133 using the long haul method. FHN has entered into pay floating, receive fixed interest rate swaps to hedge the interest rate risk of certain subordinated debt totaling \$.3 billion on June 30, 2008 and 2007. The balance sheet impact of these swaps was \$14.3 million and \$29.7 million in other liabilities on June 30, 2008 and 2007, respectively. There was no ineffectiveness related to these hedges. Interest paid or received for these swaps was recognized as an adjustment of the interest expense of the liabilities whose risk is being managed.

FHN had utilized an interest rate swap as a cash flow hedge of the interest payment on floating-rate bank notes with a fair value of \$100.5 million on June 30, 2007, and a maturity in first quarter 2009, which in first quarter 2008 was called early. The balance sheet impact of this swap was \$.5 million in other assets and \$.3 million, net of tax, in other

comprehensive income on June 30, 2007. There was no ineffectiveness related to this hedge.

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Note 12 - Restructuring, Repositioning, and Efficiency Charges

Throughout 2007, FHN conducted a company-wide review of business practices with the goal of improving its overall profitability and productivity. In addition, during 2007 management announced its intention to sell 34 full-service First Horizon Bank branches in its national banking markets. These sales were completed in second quarter 2008. In the second half of 2007, FHN also took actions to right size First Horizon Home Loans' mortgage banking operations and to downsize FHN's national lending operations, in order to redeploy capital to higher-return businesses. As part of its strategy to reduce its national real estate portfolio, FHN announced in January 2008 that it was discontinuing national homebuilder and commercial real estate lending through its First Horizon Construction Lending offices. Additionally, FHN initiated the repositioning of First Horizon Home Loans' mortgage banking operations, which included sales of MSR in fourth quarter 2007 and the first and second quarters of 2008.

In June 2008, FHN announced that it had reached a definitive agreement with MetLife for the sale of more than 230 retail and wholesale mortgage origination offices nationwide as well as its loan origination and servicing platform. FHN also agreed with MetLife for the sale of servicing assets, and related hedges, on approximately \$20 billion of first lien mortgage loans and related custodial deposits. The transaction is expected to close in third quarter 2008. MetLife will pay book value for the assets and liabilities it is acquiring, subject to an adjustment of up to \$10.0 million.

Net costs recognized by FHN in the six months ended June 30, 2008 related to restructuring, repositioning, and efficiency activities were \$47.2 million. Of this amount, \$25.5 million represents exit costs that have been accounted for in accordance with Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146).

Significant expenses year to date for 2008 resulted from the following actions:

- Expense of \$25.5 million associated with organizational and compensation changes due to right sizing operating segments, the divestiture of certain First Horizon Bank branches, the pending divestiture of certain mortgage banking operations and consolidating functional areas.
 - Losses of approximately \$1.4 million from the sales of certain First Horizon Bank branches.
 - Transaction costs of \$12.0 million from the contracted sales of mortgage servicing rights.
- Expense of \$8.3 million for the writedown of certain intangibles and other assets resulting from FHN's divestiture of certain mortgage operations and from the change in FHN's national banking strategy

Losses from the disposition of certain First Horizon Bank branches in 2008 are included in losses/gains on divestitures in the noninterest income section of the Consolidated Statements of Income. Transaction costs recognized in 2008 from selling mortgage servicing rights are recorded as a reduction of mortgage banking income in the noninterest income section of the Consolidated Statements of Income. All other costs associated with the restructuring, repositioning, and efficiency initiatives implemented by management are included in the noninterest expense section of the Consolidated Statements of Income, including severance and other employee-related costs recognized in relation to such initiatives which are recorded in employee compensation, incentives, and benefits, facilities consolidation costs and related asset impairment costs which are included in occupancy, costs associated with the impairment of premises and equipment which are included in equipment rentals, depreciation and maintenance and other costs associated with such initiatives, including professional fees, intangible asset impairment costs, and the accrual of amounts due after June 30, 2008, in relation to the divestiture of mortgage banking operations, which are included in all other expense. Additional amounts will be recognized in 2008 in relation to the conclusion of the mortgage banking divestiture as well as discontinuation of national construction lending. At this time the amount of these additional charges is expected to be between \$35 and \$50 million.

Activity in the restructuring and repositioning liability for the three and six months ended June 30, 2008 and 2007 is presented in the following table, along with other restructuring and repositioning expenses recognized. All costs associated with FHN's restructuring, repositioning, and efficiency initiatives are recorded as unallocated corporate

charges within the Corporate segment.

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Note 12 - Restructuring, Repositioning, and Efficiency Charges (continued)

(Dollars in thousands)	Three Months Ended June 30, 2008		Six Months Ended June 30, 2008		Three & Six Months Ended June 30, 2007	
	Charged to Expense	Liability	Charged to Expense	Liability	Charged to Expense	Liability
Beginning Balance	\$ -	\$ 22,690	-	19,675	\$ -	\$ -
Severance and other employee related costs	5,732	5,732	13,122	13,122	7,997	7,997
Facility consolidation costs	2,963	2,963	3,854	3,854	3,788	3,788
Other exit costs, professional fees and other	1,652	1,652	8,484	8,484	2,969	2,969
Total Accrued	10,347	33,037	25,460	45,135	14,754	14,754
Payments*	-	12,529	-	24,004	-	3,905
Accrual Reversals	-	2,563	-	3,186	-	-
Restructuring & Repositioning Reserve Balance	\$ 10,347	\$ 17,945	\$ 25,460	\$ 17,945	\$ 14,754	\$ 10,849
Other Restructuring & Repositioning Expenses:						
Provision for loan portfolio divestiture	-	-	-	-	\$ 7,672	-
Mortgage banking expense on servicing sales	9,344	-	12,011	-	-	-
Loss on First Horizon Bank branch divestitures	429	-	1,424	-	-	-
Impairment of premises and equipment	4,104	-	4,186	-	5,159	-
Impairment of intangible assets	1,732	-	4,161	-	11,733	-
Total Other Restructuring & Repositioning Expense	15,609	-	21,782	-	24,564	-
Total Restructuring & Repositioning Charges	\$ 25,956	\$ -	\$ 47,242	\$ -	\$ 39,318	\$ -

* Includes payments related to:	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008	Three & Six Months Ended June 30, 2007
Severance and other employee related costs	\$ 4,238	\$ 10,893	\$ 2,329
Facility consolidation costs	2,667	3,901	50
Other exit costs, professional fees and other	5,624	9,210	1,526
	\$ 12,529	\$ 24,004	\$ 3,905

Cumulative amounts incurred beginning second quarter 2007, for costs associated with FHN's restructuring, repositioning, and efficiency initiatives are presented in the following table:

(Dollars in thousands)	Charged to Expense
Severance and other employee related costs*	\$ 38,654
Facility consolidation costs	16,985
Other exit costs, professional fees and other	17,739
Other Restructuring & Repositioning (Income) and Expense:	
Loan portfolio divestiture	7,672
Mortgage banking expense on servicing sales	18,439
Net gain on First Horizon Bank branch divestitures	(14,271)
Impairment of premises and equipment	13,474
Impairment of intangible assets	18,160
Impairment of other assets	29,108
Total Restructuring & Repositioning Charges Incurred as of June 30, 2008	\$ 145,960

*Includes \$1.2 million of deferred severance-related payments that will be paid after 2008.

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Note 13 – Fair Values of Assets and Liabilities

Effective January 1, 2008, upon adoption of SFAS No. 159, FHN elected the fair value option on a prospective basis for almost all types of mortgage loans originated for sale purposes. FHN believes such election will reduce certain timing differences and better match changes in the value of such loans with changes in the value of derivatives used as economic hedges for these assets. No transition adjustment was required upon adoption of SFAS No. 159 as FHN continues to account for mortgage loans held for sale which were originated prior to 2008 at the lower of cost or market value. Mortgage loans originated for sale are included in loans held for sale on the Consolidated Condensed Statements of Condition. Other interests retained in relation to residential loan sales and securitizations are included in trading securities on the Consolidated Condensed Statements of Condition. Additionally, effective January 1, 2008, FHN adopted SFAS No. 157 for existing fair value measurement requirements related to financial assets and liabilities as well as to non-financial assets and liabilities which are re-measured at least annually. FSP FAS 157-2 delays the effective date of SFAS No. 157 until fiscal years beginning after November 15, 2008, for non-financial assets and liabilities which are recognized at fair value on a non-recurring basis. Therefore, in 2008, FHN has not applied the provisions of SFAS No. 157 for non-recurring fair value measurements related to its non-financial long-lived assets under SFAS No. 144 (including real estate acquired by foreclosure) or its non-financial liabilities for exit or disposal activities initially measured at fair value under SFAS No. 146, as well as to goodwill and indefinite-lived intangible assets which are measured at fair value on a recurring basis for impairment assessment purposes but are not recognized in the financial statements at fair value.

In accordance with SFAS No. 157, FHN groups its assets and liabilities measured at fair value in three levels, based on the markets in which such assets and liabilities are traded and the reliability of the assumptions used to determine fair value. This hierarchy requires FHN to maximize the use of observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. Each fair value measurement is placed into the proper level based on the lowest level of significant input. These levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

All divestiture-related line items in the Consolidated Condensed Statements of Condition have been combined with the related non-divestiture line items in preparation of the disclosure tables in this footnote. The table below presents the balances of assets and liabilities measured at fair value on a recurring basis. Derivatives in an asset position are included within Other assets while derivatives in a liability position are included within Other liabilities. Derivative positions constitute the only Level 3 measurements within Other assets and Other liabilities.

Note 13 – Fair Values of Assets and Liabilities (continued)

(Dollars in thousands)	June 30, 2008			
	Total	Level 1	Level 2	Level 3
Trading securities	\$ 1,563,055	\$ 2,929	\$ 1,131,109	\$ 429,017
Loans held for sale	2,163,705	-	2,159,993	3,712
Securities available for sale	2,756,820	32,086	2,577,863	146,871
Mortgage servicing rights, net	1,139,395	-	-	1,139,395
Other assets *	306,985	108,787	97,363	100,835
Total	\$ 7,929,960	\$ 143,802	\$ 5,966,328	\$ 1,819,830
Trading liabilities	\$ 464,225	\$ 31	\$ 464,194	\$ -
Commercial paper and other short-term borrowings	205,412	-	-	205,412
Other liabilities *	252,221	156,131	90,775	5,315
Total	\$ 921,858	\$ 156,162	\$ 554,969	\$ 210,727

* Derivatives are included in this category.

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Note 13 – Fair Values of Assets and Liabilities (continued)

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	Three Months Ended June 30, 2008					
	Trading securities	Loans held for sale	Securities available for sale	Mortgage servicing rights, net	Net derivative assets and liabilities	Commercial paper and other short-term borrowings
(Dollars in thousands)						
Balance, beginning of quarter	\$ 392,196	\$ 4,753	\$ 153,376	\$ 895,923	\$ 465,067	\$ -
Total net gains/(losses) for the quarter included in:						
Net income	79,261	(171)	(236)	254,066	(307,054)	16,685
Other comprehensive income	-	-	(3,336)	-	-	-
Purchases, sales, issuances and settlements, net	(42,440)	(849)	(2,933)	(10,594)	(70,069)	188,727
Net transfers into/out of Level 3	-	(21)	-	-	7,576	-
Balance, end of quarter	\$ 429,017	\$ 3,712	\$ 146,871	\$ 1,139,395	\$ 95,520	\$ 205,412

Net unrealized gains/(losses) included in net income for the quarter relating to assets and liabilities held at June 30, 2008

\$ 56,696* \$ (1,795)** \$ 69*** \$ 216,442**** \$ (232,560)** \$ (16,685)

	Six Months Ended June 30, 2008					
	Trading securities	Loans held for sale	Securities available for sale	Mortgage servicing rights, net	Net derivative assets and liabilities	Commercial paper and other short-term borrowings
(Dollars in thousands)						
Balance, beginning of year	\$ 476,404	\$ -	\$ 159,301	\$ 1,159,820	\$ 81,517	\$ -
Total net gains/(losses) for the period included in:						
Net income	20,077	(171)	69	(8,099)	54,267	16,685
Other comprehensive income	-	-	(7,178)	-	-	-
Purchases, sales, issuances and settlements, net	(89,403)	(849)	(5,321)	(12,326)	(47,840)	188,727
Net transfers into/out of Level 3	21,939	4,732	-	-	7,576	-
Balance, end of period	\$ 429,017	\$ 3,712	\$ 146,871	\$ 1,139,395	\$ 95,520	\$ 205,412

Net unrealized gains/(losses) included in net income for the period relating to assets and liabilities held at June 30, 2008

\$ (23,184)* \$ (2,641)** \$ 69*** \$ 26,567**** \$ 53,062** \$ (16,685)

*

Six months ended June 30, 2008 includes \$2.6 million included in Capital markets noninterest income, \$11.8 million included in Mortgage banking noninterest income, and \$9.3 million included in Revenue from loan sales and securitizations; three months ended June 30, 2008 included \$2.6 million included in Capital markets noninterest income, \$68.1 million included in Mortgage banking noninterest income, and \$9.3 million in Revenue from loan sales and securitizations.

** Included in Mortgage banking noninterest income.

*** Represents recognized gains and losses attributable to venture capital investments classified within securities available for sale that are included in Securities gains/(losses) in noninterest income.

**** Six months ended June 30, 2008 includes \$28.5 million included in Mortgage banking noninterest income and \$(1.9) million included in Revenue from loan sales and securitizations; three months ended June 30, 2008 includes \$218.3 million in Mortgage banking noninterest income and \$(1.9) million included in Revenue from loan sales and securitizations.

Note 13 – Fair Values of Assets and Liabilities (continued)

Additionally, FHN may be required, from time to time, to measure certain other financial assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower of cost or market accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis in the first half of 2008 which were still held in the balance sheet at June 30, 2008, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at June 30, 2008.

(Dollars in thousands)	Carrying value at June 30, 2008				Six Months Ended June 30, 2008
	Total	Level 1	Level 2	Level 3	Total losses
Loans held for sale	\$ 149,469	\$ -	\$ 94,763	\$ 54,706	\$ 25,303
Securities available for sale	1,535	-	1,535	-	1,395*
Loans, net of unearned income**	333,956	-	-	333,956	75,283
Other assets	120,934	-	-	120,934	4,240
					\$ 106,221

* Represents recognition of other than temporary impairment for cost method investments classified within securities available for sale.

** Represents carrying value of loans for which adjustments are based on the appraised value of the collateral. Writedowns on these loans are recognized as part of provision.

In first quarter 2008, FHN recognized a lower of cost or market reduction in value of \$36.2 million for its warehouse of trust preferred securities, which was classified within level 3 for Loans held for sale at March 31, 2008. The determination of estimated market value for the warehouse was based on a hypothetical securitization transaction for the warehouse as a whole. FHN used observable data related to prior securitization transactions as well as changes in credit spreads in the CDO market since the most recent transaction. FHN also incorporated significant internally developed assumptions within its valuation of the warehouse, including estimated prepayments and estimated defaults. In accordance with SFAS No. 157, FHN excluded transaction costs related to the hypothetical securitization in determining fair value.

In second quarter 2008, FHN designated its trust preferred warehouse as held to maturity. Accordingly, these loans were excluded from loans held for sale in the nonrecurring measurements table above as of June 30, 2008. In conjunction with the transfer of these loans to held to maturity status, FHN performed a lower of cost or market analysis on the date of transfer. This analysis was based on the pricing of market transactions involving securities similar to those held in the trust preferred warehouse with consideration given, as applicable, to any differences in characteristics of the market transactions, including issuer credit quality, call features and term. As a result of the lower of cost or market analysis, FHN determined that its existing valuation of the trust preferred warehouse was appropriate.

In first quarter 2008, FHN recognized a lower of cost or market reduction in value of \$17.0 million relating to mortgage warehouse loans. Approximately \$10.5 million was attributable to increased delinquencies or aging of loans. The market values for these loans are estimated using historical sales prices for these type loans, adjusted for incremental price concessions that a third party investor is assumed to require due to tightening credit markets and deteriorating housing prices. These assumptions are based on published information about actual and projected deteriorations in the housing market as well as changes in credit spreads. The remaining reduction in value of \$6.5 million was attributable to lower investor prices, due primarily to credit spread widening. This reduction was calculated by comparing the total fair value of loans (using the same methodology that is used for fair value option loans) to carrying value for the aggregate population of loans that were not delinquent or aged.

FHN also recognized a lower of cost or market reduction in value of \$8.3 million relating to mortgage warehouse loans during second quarter of 2008. Approximately \$7.1 million is attributable to increased repurchases and delinquencies or aging of warehouse loans; the remaining reduction in value is attributable to lower investor prices, due primarily to credit spread widening. The market values for these loans are estimated using historical sales prices for these type loans, adjusted for incremental price concessions that a third party investor is assumed to require due to tightening credit markets and deteriorating housing prices. These assumptions are based on published information about actual and projected deteriorations in the housing market as well as changes in credit spreads.

Note 13 – Fair Values of Assets and Liabilities (continued)

Fair Value Option

As described above, upon adoption of SFAS No. 159, management elected fair value accounting for substantially all forms of mortgage loans originated for sale. In second quarter 2008, agreements were reached for the transfer of certain servicing assets and delivery of the servicing assets occurred. However, due to certain recourse provisions, these transactions did not qualify for sale treatment and the associated proceeds have been recognized within Commercial paper and other short term borrowings in the Consolidated Condensed Statement of Position as of June 30, 2008. Since servicing assets are recognized at fair value and since changes in the fair value of related financing liabilities will exactly mirror the change in fair value of the associated servicing assets, management elected to account for the financing liabilities at fair value under SFAS No. 159. Additionally, as the servicing assets have already been delivered to the buyer, the fair value of the financing liabilities associated with the transaction does not reflect any instrument-specific credit risk.

The following table reflects the differences between the fair value carrying amount of mortgages held for sale measured at fair value under SFAS No. 159 and the aggregate unpaid principal amount FHN is contractually entitled to receive at maturity.

	June 30, 2008		Fair value carrying amount less aggregate unpaid principal
(Dollars in thousands)	Fair value carrying amount	Aggregate unpaid principal	
Loans held for sale reported at fair value:			
Total loans	\$ 2,163,705	\$ 2,157,321	\$ 6,384
Nonaccrual loans	320	567	(247)
Loans 90 days or more past due and still accruing	890	1,525	(635)

Assets and liabilities accounted for under SFAS No. 159 are initially measured at fair value. Gains and losses from initial measurement and subsequent changes in fair value are recognized in earnings. The change in fair value related to initial measurement and subsequent changes in fair value for mortgage loans held for sale and other short term borrowings for which FHN elected the fair value option are included in current period earnings with classification in the income statement line item shown below.

The amounts for loans held for sale includes approximately \$5.2 million and \$14.7 million of losses included in earnings for the three and six month periods ended June 30, 2008, respectively, attributable to changes in instrument-specific credit risk, which was determined based on both a quality adjustment for delinquencies and the full credit and liquidity spread on the non-conforming loans.

(Dollars in thousands)	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Changes in fair value included in net income:		
Mortgage banking noninterest income		
Loans held for sale	\$ (25,159)	\$ (5,471)
Commercial paper and other short-term borrowings	(16,685)	(16,685)
Estimated changes in fair value due to credit risk	(5,204)	(14,665)

Interest income on mortgage loans held for sale measured at fair value is calculated based on the note rate of the loan and is recorded in the interest income section of the Consolidated Condensed Statements of Income as interest on loans held for sale.

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Note 14 – Other Events

In second quarter 2008, FHN completed a public offering of 69 million shares of its common stock, which generated net proceeds of \$659.8 million after consideration of underwriters' discounts and commissions and offering costs. FHN intends to use substantially all of the net proceeds from the sales of the securities for general corporate purposes. To that end, \$610.0 million of the proceeds from the offering was contributed to First Tennessee Bank, N.A. in the form of equity capital.

In July 2008, the Board of Directors of FHN determined that the dividend payable on October 1, 2008, will be paid in shares of common stock at the rate of 3.0615 percent, which means that 30.615 new dividend shares will be distributed for every 1,000 shares held on the record date of September 12, 2008. The dividend rate was determined to provide shareholders with new shares having a value of \$0.20 for each share held on the record date, based on FHN's volume weighted average share price on July 11, 2008, of \$6.5328 per share. FHN currently intends to pay dividends in shares of common stock for the foreseeable future.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL INFORMATION

First Horizon National Corp. (NYSE: FHN) is a national financial services institution. From a small community bank chartered in 1864, FHN has grown to be one of the 30 largest bank holding companies in the United States in terms of asset size.

The 9,000 employees of FHN provide financial services to individuals and business customers through hundreds of offices located in more than 40 states. The corporation's three major brands – First Tennessee, FTN Financial, and First Horizon – provide customers with a broad range of products and services including:

Regional banking, with one of the largest market shares in Tennessee and one of the highest customer retention rates of any bank in the country

Capital markets, one of the nation's top underwriters of U.S. government agency securities

Mortgage banking, one of the nation's top mortgage originators and recipient of consecutive awards for servicing excellence from Fannie Mae and Freddie Mac. Upon closing of the sale of its retail and wholesale mortgage offices nationwide and its loan origination and servicing platform outside Tennessee, the company will continue to provide mortgage services to customers in its First Tennessee Bank markets in and around Tennessee.

FHN companies have been recognized as some of the nation's best employers by AARP and Working Mother magazines.

In first quarter 2008 FHN revised its business line segments to better align with its strategic direction, representing a focus on its regional banking franchise and capital markets business. To implement this change, the prior Retail/Commercial Banking segment was split into its major components with the national portions of consumer lending and construction lending assigned to a new National Specialty Lending segment that more appropriately reflects the ongoing wind down of these businesses. Additionally, correspondent banking was shifted from Retail/Commercial Banking to the Capital Markets segment to better represent the complementary nature of these businesses. To reflect its geographic focus, the remaining portions of the Retail/Commercial Banking segment now represent the new Regional Banking segment. All prior period information has been revised to conform to the current segment structure and the business line reviews below are based on the new segment presentation.

Regional Banking offers financial products and services, including traditional lending and deposit-taking, to retail and commercial customers in Tennessee and surrounding markets. Additionally, Regional Banking provides investments, insurance, financial planning, trust services and asset management, credit card, cash management, and check clearing. On March 1, 2006, FHN sold its national merchant processing business. The continuing effects of the divestiture, which is included in the Regional Banking segment, are being accounted for as a discontinued operation.

Capital Markets provides a broad spectrum of financial services for the investment and banking communities through the integration of traditional capital markets securities activities, structured finance, equity research, investment banking, loan sales, portfolio advisory services, and correspondent banking services.

National Specialty Lending consists of traditional consumer and construction lending activities outside the regional banking footprint. In January 2008, FHN announced the discontinuation of national home builder and commercial real estate lending through its First Horizon Construction Lending offices.

Mortgage Banking helps provide home ownership through First Horizon Home Loans, a division of First Tennessee Bank National Association (FTBNA), which operates offices in approximately 40 states and is one of the top 20

mortgage servicers and top 20 originators of mortgage loans to consumers. This segment consists of core mortgage banking elements including originations and servicing and the associated ancillary revenues related to these businesses.

Corporate consists of unallocated corporate expenses including restructuring, repositioning, and efficiency initiatives, gains and losses on repurchases of debt, 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, revenue and expense associated with deferred compensation plans, funds management and venture capital.

For the purpose of this management discussion and analysis (MD&A), earning assets have been expressed as averages, and loans have been disclosed net of unearned income. The following is a discussion and analysis of the financial condition and results of operations of FHN for the three-month and six-month periods ended June 30, 2008, compared to the three-month and six-month periods ended June 30, 2007. To assist the reader in obtaining a better understanding of FHN and its performance, this discussion should be read in conjunction with FHN's unaudited consolidated condensed financial statements and accompanying notes appearing in this report. Additional information including the 2007 financial statements, notes, and MD&A is provided in the 2007 Annual Report.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements with respect to FHN's beliefs, plans, goals, expectations, and estimates. Forward-looking statements are statements that are not a representation of historical information but rather are related to future operations, strategies, financial results or other developments. The words "believe," "expect," "anticipate," "intend," "estimate," "should," "is likely," "will," "going forward," and other expressions that indicate future events and trends identify forward-looking statements. Forward-looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, operational, economic and competitive uncertainties and contingencies, many of which are beyond a company's control, and many of which, with respect to future business decisions and actions (including acquisitions and divestitures), are subject to change. Examples of uncertainties and contingencies include, among other important factors, general and local economic and business conditions; recession or other economic downturns, expectations of and actual timing and amount of interest rate movements, including the slope of the yield curve (which can have a significant impact on a financial services institution); market and monetary fluctuations; inflation or deflation; customer and investor responses to these conditions; the financial condition of borrowers and other counterparties; competition within and outside the financial services industry; geopolitical developments including possible terrorist activity; natural disasters; effectiveness of FHN's hedging practices; technology; demand for FHN's product offerings; new products and services in the industries in which FHN operates; and critical accounting estimates. Other factors are those inherent in originating, selling and servicing loans including prepayment risks, pricing concessions, fluctuation in U.S. housing prices, fluctuation of collateral values, and changes in customer profiles. Additionally, the actions of the Securities and Exchange Commission (SEC), the Financial Accounting Standards Board (FASB), the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Federal Reserve), Financial Industry Regulatory Authority (FINRA), and other regulators; regulatory and judicial proceedings and changes in laws and regulations applicable to FHN; and FHN's success in executing its business plans and strategies and managing the risks involved in the foregoing, could cause actual results to differ. FHN assumes no obligation to update any forward-looking statements that are made from time to time. Actual results could differ because of several factors, including those presented in this Forward-Looking Statements section, in other sections of this MD&A, and other parts of this Quarterly Report on Form 10-Q for the period ended June 30, 2008.

FINANCIAL SUMMARY (Comparison of Second Quarter 2008 to Second Quarter 2007)

FINANCIAL HIGHLIGHTS

For second quarter 2008, FHN reported a net loss of \$19.1 million or \$.11 per diluted share compared to earnings of \$22.2 million or \$.17 per diluted share for second quarter 2007. Second quarter 2008 was impacted by several items including increased provisioning for loan losses and increased costs for estimated repurchase activity for prior loan sales, costs associated with the company's restructuring, repositioning, and efficiency initiatives and a \$12.6 million gain on the repurchase of debt. Provisioning for loan losses increased by \$175.6 million over second quarter 2007 to \$220.0 million in the current quarter as loan loss reserves grew from 1.03 percent of total loans in the second quarter 2007 to 2.59 percent in the second quarter 2008. FHN incurred net charges of \$26.0 million in the second quarter 2008 from restructuring, repositioning, and efficiency initiatives compared to \$39.3 million for second quarter 2007. Other items affecting second quarter 2007 were a net reduction in pretax earnings of \$5.4 million related to legal settlements and \$9.2 million of securities gains.

National Specialty Lending, Regional Banking, Mortgage Banking and Capital Markets were all impacted by increased provisioning in second quarter 2008 as FHN continued to actively manage the credit risk within its loan portfolios. Capital Markets fixed income sales generated \$105.0 million of revenues compared to \$48.3 million in the second quarter of 2007 as the Federal Reserve's aggressive rate cuts in 2008 produced a steeper yield curve. Mortgage Banking pre-tax income increased over second quarter 2007 as origination income was positively impacted by higher gain on sale margins while servicing income was favorably impacted by hedging activities compared to 2007.

FHN improved its capital position in second quarter 2008 as it completed a public offering of 69 million shares of common stock. Key ratios were 6.96 percent for tangible common equity to tangible assets, 10.51 percent for Tier I and 15.15 percent for total capital as of June 30, 2008. Corporate net interest margin improved to 3.01 percent for second quarter 2008 compared to 2.79 percent for second quarter 2007.

Return on average shareholders' equity and return on average assets were (3.02) percent and (.21) percent, respectively, for the second quarter 2008. Return on average shareholders' equity and return on average assets were 3.57 percent and .23 percent respectively, for the second quarter 2007. Total assets were \$35.5 billion and shareholders' equity was \$2.7 billion on June 30, 2008, as compared to \$38.4 billion and \$2.5 billion, respectively, on June 30, 2007.

BUSINESS LINE REVIEW

Regional Banking

The pre-tax loss for Regional Banking was \$26.7 million for second quarter 2008 compared to pre-tax income of \$53.9 million for second quarter 2007. Total revenues for Regional Banking were \$212.9 million for second quarter 2008 compared to \$229.3 million for second quarter 2007.

Net interest income was \$120.3 million in second quarter 2008 compared to \$137.7 million in second quarter 2007. Regional Banking net interest margin was 4.38 percent in second quarter 2008 compared to 4.94 percent in the second quarter 2007. This compression resulted from narrowing spreads on deposits as Federal Reserve rate reductions in the first half of 2008 were not fully passed on to deposit customers.

Noninterest income increased slightly to \$92.5 million in second quarter 2008 compared to \$91.6 million in second quarter 2007 as increased fees from deposit and cash management as well as a \$2.3 million foreclosure gain more than offset declines in trust and insurance income. The increase in deposit fees was due to growth in deposit accounts while decreases in trust income were primarily due to market conditions and the decline in insurance commissions is due to a soft property and casualty market.

Provision for loan losses increased to \$89.4 million in second quarter 2008 from \$14.1 million for the second quarter 2007. This increase was primarily a result of deterioration in home equity and commercial loan portfolios.

Noninterest expense decreased to \$150.2 million in second quarter 2008 from \$161.3 million for the second quarter 2007. While most expenses decreased, the majority of the decline is attributable to reductions in personnel expenses related to efficiency initiatives.

Capital Markets

Capital Markets pre-tax income was \$24.1 million in second quarter 2008 compared to \$22.5 million in second quarter 2007. Total revenues for Capital Markets were \$143.1 million in second quarter 2008 compared to \$106.7 million in second quarter 2007.

Net interest income was \$18.5 million in second quarter 2008 compared to \$13.7 million in second quarter 2007. This increase is primarily attributable to trading portfolio management activities implemented in the second half of 2007, a steeper yield curve and the effect of increases in the average trust preferred warehouse.

Income from fixed income sales increased to \$105.0 million in second quarter 2008 from \$48.3 million in second quarter 2007, reflecting an increase in activity during the second quarter 2008 as the Federal Reserve aggressively lowered rates the first half of 2008 resulting in a steeper yield curve. Other product revenues were \$19.7 million in second quarter 2008 compared to \$44.7 million in second quarter 2007. This decrease is primarily attributable to the effect of credit market disruptions on the pooled trust preferred product for which no transaction revenues were recognized in second quarter 2008.

Provision increased to \$18.5 million from \$3.7 million to reflect deterioration of correspondent banking loans.

Noninterest expense was \$100.6 million in second quarter 2008 compared to \$80.5 million in second quarter 2007. This increase is a result of higher production levels during second quarter 2008.

National Specialty Lending

National Specialty Lending had a pre-tax loss of \$95.7 million in second quarter 2008 compared to pre-tax income of \$14.6 million in second quarter 2007. The pre-tax loss in 2008 is primarily a result of an increase in the provision for loan losses to \$108.1 million in second quarter 2008 compared to \$19.1 million in second quarter 2007 due to deterioration in the national construction and consumer lending portfolios.

Total revenues for National Specialty Lending were \$39.1 million for second quarter 2008 compared to \$71.9 million for second quarter 2007. Net interest income declined to \$53.6 million in the second quarter 2008, compared to \$59.4 million for the second quarter 2007, as a result of the increase in nonaccrual construction loans. Noninterest income was a loss of \$14.5 million for the second quarter 2008, compared to a gain of \$12.4 million for the second quarter 2007, as the value of residual interests in prior securitizations declined. Additionally, increased costs were recorded for estimated repurchase activity related to prior loan sales and there were no loan sales executed in the second quarter

2008.

Noninterest expense was \$26.7 million in second quarter 2008, compared to \$38.2 million for second quarter 2007. Noninterest expense declined mainly due to lower personnel costs related to the business wind-down initiated during first quarter 2008.

Mortgage Banking

Mortgage Banking had a pre-tax income of \$69.2 million in second quarter 2008, compared to a pre-tax loss of \$12.0 million in second quarter 2007. Total revenues for Mortgage Banking were \$222.3 million for second quarter 2008 compared to \$103.3 million for second quarter 2007.

Net interest income was \$31.8 million in second quarter 2008 compared to \$28.3 million in second quarter 2007. The increase is consistent with the increase in the warehouse spread to 3.14% in the current quarter compared to 1.14% in second quarter 2007. Provision for loan losses increased to \$4.0 million in the second quarter 2008 from \$(.1) million in the second quarter 2007 reflecting deterioration of permanent mortgages in the portfolio.

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Noninterest income was \$190.5 million in second quarter 2008 compared to \$74.9 million in second quarter 2007. Noninterest income consists primarily of mortgage banking-related revenue from the origination and sale of mortgage loans, fees from mortgage servicing and changes in fair value of mortgage servicing rights (MSR) net of hedge gains or losses.

Net origination income increased to \$134.1 million in second quarter 2008 from \$67.3 million in second quarter 2007 primarily due to a \$39.0 million positive impact from the adoption of accounting standards, including the prospective election of fair value accounting for substantially all types of mortgage warehouse loans in the first quarter 2008. Gain on sale margins increased to 125 bps compared to 76 bps in second quarter 2007 as government loans constituted a higher percentage of deliveries and from the effects of favorable rate moves at the end of the current quarter.

Net servicing income increased to \$42.6 million in the second quarter 2008 from a loss of \$3.5 million in 2007. Servicing hedging activities and changes other than runoff in the value of capitalized servicing assets positively impacted net revenues by \$16.5 million this quarter as compared to a negative impact of \$14.7 million in second quarter 2007, primarily resulting from Federal Reserve interest rate decreases creating a steeper yield curve in 2008. The decrease in MSR value due to runoff was \$37.1 million in second quarter 2008 compared to \$62.6 million in second quarter 2007 as the value of MSR that prepaid this quarter was less valuable than a year ago and loans prepaid at a slower rate.

Noninterest expense was \$149.1 million in second quarter 2008 compared to \$115.5 million in second quarter 2007. This increase in the second quarter of 2008 resulted primarily from a \$46.2 million effect of no longer deferring origination costs on warehouse loans accounted for at elected fair value in first quarter 2008. This amount is offset by a corresponding increase in origination income. The effects of cost reductions initiated after first quarter 2007 as part of right sizing operations and a decline in legal settlements of \$8.4 million from 2007 partially offset the increase in noninterest expense attributable to the fair value election for warehouse loans and increased foreclosure expenses.

Corporate

The Corporate segment's results yielded a pre-tax loss of \$18.7 million in second quarter 2008 compared to a pre-tax loss of \$60.9 million in second quarter 2007. Net interest income increased to \$14.7 million from \$.5 million in the second quarter 2007 as proceeds from the common stock issuance reduced the need for short term funding. Results for second quarter 2008 include \$26.0 million of net charges associated with implementation of restructuring, repositioning and efficiency initiatives compared to \$39.3 million of net charges in second quarter 2007. Gains of \$12.6 million related to the repurchase of debt were also recognized in second quarter 2008. See discussion of the restructuring, repositioning and efficiency initiatives below for further details.

RESTRUCTURING, REPOSITIONING, AND EFFICIENCY INITIATIVES

Beginning in 2007, FHN conducted a company-wide review of business practices with the goal of improving its overall profitability and productivity. In addition, during 2007 management announced its intention to sell 34 full-service First Horizon Bank branches in its national banking markets. These sales were completed in second quarter 2008. In the second half of 2007, FHN also took actions to right size First Horizon Home Loans' mortgage banking operations and to downsize FHN's national lending operations, in order to redeploy capital to higher-return businesses. As part of its strategy to reduce its national real estate portfolio, FHN announced in January 2008 that it was discontinuing national homebuilder and commercial real estate lending through its First Horizon Construction Lending offices. Additionally, FHN initiated the repositioning of First Horizon Home Loans' mortgage banking operations, which included sales of MSR in fourth quarter 2007 and the first and second quarters of 2008.

In June 2008, FHN announced that it had reached a definitive agreement with MetLife for the sale of more than 230 retail and wholesale mortgage origination offices nationwide as well as its loan origination and servicing platform. FHN also agreed with MetLife for the sale of servicing assets, and related hedges, on approximately \$20

billion of first lien mortgage loans and related custodial deposits. The transaction is expected to close in third quarter 2008. MetLife will pay book value for the assets and liabilities it is acquiring, subject to an adjustment of up to \$10.0 million.

Net costs recognized by FHN in the six months ended June 30, 2008, related to restructuring, repositioning, and efficiency activities were \$47.2 million compared to \$39.3 million for the first half of 2007. Included in noninterest income are \$12.0 million of transaction costs related to contracted loan servicing sales and \$1.4 million of losses related to First Horizon Bank branch sales. All other costs incurred in relation to the restructuring, repositioning, and efficiency initiatives implemented by management are included in noninterest expense. All costs associated with FHN's restructuring, repositioning, and efficiency initiatives are recorded as unallocated corporate charges within the Corporate segment. Significant expenses for year to date 2008 resulted from the following actions:

- Expense of \$25.5 million associated with organizational and compensation changes due to right sizing operating segments, the divestiture of certain First Horizon Bank branches, the pending divestiture of certain mortgage banking operations and consolidating functional areas.
- Losses of approximately \$1.4 million from the sales of certain First Horizon Bank branches.
- Transaction costs of \$12.0 million from the contracted sales of mortgage servicing rights.

- Expense of \$8.3 million for the write-down of certain intangibles and other assets resulting from FHN's divestiture of certain mortgage operations and from the change in FHN's national banking strategy

Settlement of the obligations arising from current initiatives will be funded from operating cash flows. The effect of suspending depreciation on assets held for sale was immaterial to FHN's results of operations for all periods. As a result of the change in FHN's national banking strategy, a write-down of other intangibles of \$2.4 million was recognized in first quarter 2008 related to certain banking licenses. As part of the agreement to sell certain mortgage banking assets, an impairment of \$1.7 million was recognized in second quarter 2008 related to noncompete agreements. The recognition of these impairment losses will have no effect on FHN's debt covenants. The impairment loss related to such intangible assets has been recorded as an unallocated corporate charge within the Corporate segment and is included in all other expense on the Consolidated Condensed Statements of Income. As a result of the restructuring, repositioning, and efficiency initiatives implemented to date by management, the effects of \$175 million in aggregate annual pre-tax improvements are being experienced by FHN beginning in its first quarter 2008 run-rate. An additional \$70 million in annual profitability improvements is anticipated to be experienced by the end of 2008 in relation to the First Horizon Bank branch divestitures and the restructuring of mortgage operations and national lending operations. Due to the broad nature of the actions being taken, all components of income and expense will be affected. Additional amounts will be recognized in 2008 in relation to the conclusion of the mortgage banking divestiture as well as the discontinuance of national construction lending. At this time, the amount of these additional charges is expected to be between \$35 and \$50 million.

Charges related to restructuring, repositioning, and efficiency initiatives for the three and six month periods ended June 30, 2008, and 2007 are presented in the following table based on the income statement line item affected. See Note 12 – Restructuring, Repositioning, and Efficiency Charges and Note 2 – Acquisitions/Divestitures for additional information.

Table 1 - Charges for Restructuring, Repositioning, and Efficiency Initiatives

(Dollars in thousands)	Three Months Ended June 30 2008	Six Months Ended June 30 2008	Three and Six Months Ended June 30 2007
Noninterest income:			
Mortgage banking	\$ (9,344)	\$ (12,011)	\$ -
Losses on divestitures	(429)	(1,424)	-
Total noninterest income	(9,773)	(13,435)	-
Provision for loan losses	-	-	7,672
Noninterest expense:			
Employee compensation, incentives and benefits	5,729	13,141	7,997
Occupancy	3,338	4,319	3,726
Equipment rentals, depreciation and maintenance	4,181	4,264	5,221
Operations services	2	2	-
Communications and courier	36	42	-
All other expense	2,897	12,039	14,702
Total noninterest expense	16,183	33,807	31,646
Loss before income taxes	\$ (25,956)	\$ (47,242)	\$ (39,318)

Activity in the restructuring and repositioning liability for the six months ended June 30, 2008 is presented in the following table:

(Dollars in thousands)	Liability
Beginning Balance	\$ 19,675

Severance and other employee related costs	13,122
Facility consolidation costs	3,854
Other exit costs, professional fees and other	8,484
Total Accrued	45,135
Payments*	24,004
Accrual Reversals	3,186
Restructuring and Repositioning Reserve Balance	\$ 17,945

	Six Months
	Ended
* Includes payments related to:	June 30, 2008
Severance and other employee related costs	\$ 10,893
Facility consolidation costs	3,901
Other exit costs, professional fees and other	9,210
	\$ 24,004

INCOME STATEMENT

Total revenues (net interest income and noninterest income) were \$637.9 million in second quarter 2008 compared to \$519.8 million in 2007. Net interest income was \$238.9 million in second quarter 2008 compared to \$239.4 million in 2007 and noninterest income was \$399.0 million in 2008 compared to \$280.3 million in 2007. A discussion of the major line items follows.

NET INTEREST INCOME

Net interest income remained flat at \$238.9 million in second quarter 2008 compared to \$239.4 million in second quarter 2007. Earning assets declined 7.3 percent to \$31.8 billion and interest-bearing liabilities declined 8.1 percent to \$32.1 billion in second quarter 2008.

The activity levels and related funding for FHN's mortgage production and servicing and capital markets activities affect the net interest margin. These activities typically produce different margins than traditional banking activities. Mortgage production and servicing activities can affect the overall margin based on a number of factors, including the shape of the yield curve, the size of the mortgage warehouse, the time it takes to deliver loans into the secondary market, the amount of custodial balances, and the level of MSR. Capital markets activities tend to compress the margin because of its strategy to reduce market risk by economically hedging a portion of its inventory on the balance sheet. As a result of these impacts, FHN's consolidated margin cannot be readily compared to that of other bank holding companies.

The consolidated net interest margin was 3.01 percent for second quarter 2008 compared to 2.79 percent for second quarter 2007. The increased margin occurred as the net interest spread widened to 2.66 percent from 2.13 percent in 2007 while the impact of free funding decreased from 66 basis points to 35 basis points. The improvement in net interest margin primarily resulted from the decline in earning assets.

Table 2 - Net Interest Margin

	Three Months Ended June 30	
	2008	2007
Consolidated yields and rates:		
Loans, net of unearned income	5.29%	7.43%
Loans held for sale	5.70	6.45
Investment securities	5.27	5.55
Capital markets securities inventory	4.45	5.35
Mortgage banking trading securities	12.48	12.13
Other earning assets	1.98	5.04
Yields on earning assets	5.24	6.94
Interest-bearing core deposits	2.21	3.39
Certificates of deposits \$100,000 and more	3.45	5.36
Federal funds purchased and securities sold under agreements to repurchase	1.88	4.99
Capital markets trading liabilities	4.92	5.43
Commercial paper and other short-term borrowings	2.30	5.14
Long-term debt	3.17	5.68
Rates paid on interest-bearing liabilities	2.58	4.81
Net interest spread	2.66	2.13
Effect of interest-free sources	.35	.66
FHN - NIM	3.01%	2.79%

Prospectively, net interest margin should be positively influenced by the reduction of lower margin business assets and the core bank's asset-sensitivity position heading into a likely rising short-term rate environment.

NONINTEREST INCOME

Mortgage Banking Noninterest Income

First Horizon Home Loans, a division of FHN, offers residential mortgage banking products and services to customers, which consist primarily of the origination or purchase of single-family residential mortgage loans. First Horizon Home Loans originates mortgage loans through its retail and wholesale operations for sale to secondary market investors and subsequently provides servicing for the majority of those loans.

Prior to adoption of new accounting standards in the first quarter 2008, origination income included origination fees, net of costs, gains/(losses) recognized on loans sold including the capitalized fair value of MSR, and the value recognized on loans in process including results from hedging. Origination fees, net of costs (including incentives and other direct costs), were deferred and included in the basis of the loans in calculating gains and losses upon sale. Gain or loss was recognized due to changes in fair value of an interest rate lock commitment made to the customer. Gains or losses from the sale of loans were recognized at the time a mortgage loan was sold into the secondary market. See Critical Accounting Policies and Note 1 – Financial Information for more discussion of the effects of adopting the new accounting standards.

Upon adoption of the new accounting standards, origination income includes origination fees, gains/(losses) recognized on loans sold including the capitalized fair value of MSR, and the value recognized on loans in process including results from hedging. Upon election of fair value accounting for substantially all warehouse loans, the value recognized on these loans includes changes in investor prices, MSR and concessions. The related origination fees are no longer deferred but recognized in origination income upon closing of a loan.

Origination income increased to \$134.1 million in second quarter 2008 compared to \$67.2 million last year as loans delivered into the secondary market were consistent with that of second quarter of 2007 of \$7.2 billion. Margin on deliveries increased from 76 basis points in second quarter 2007 to 125 basis points in 2008 largely due to government loans constituting a much higher portion of deliveries and the effects of favorable rate moves at the end of the second quarter. The adoption of accounting standards positively impacted second quarter 2008 by \$39.0 million.

Servicing income includes servicing fees, changes in the fair value of the MSR asset and net gains or losses from hedging MSR. First Horizon Home Loans employs hedging strategies intended to counter changes in the value of MSR and other retained interests due to changing interest rate environments (refer to discussion of MSR under Critical Accounting Policies). Net servicing income increased to \$42.6 million in the second quarter 2008 from a loss of \$3.5 million in 2007.

Servicing hedging activities and changes other than runoff in the value of capitalized servicing assets positively impacted net revenues by \$16.5 million this quarter as compared to a negative impact of \$14.7 million in second quarter 2007, due to Federal Reserve rate decreases and a steeper yield curve in 2008. Additionally, the change in MSR value due to runoff was \$37.1 million in second quarter 2008 compared to \$62.7 million last year as the value of MSR that prepaid this quarter was less valuable than a year ago and loans prepaid at a slower rate.

Other income includes FHN's share of earnings from nonconsolidated subsidiaries accounted for under the equity method, which provide ancillary activities to mortgage banking, and fees from retail construction lending.

Table 3 - Mortgage Banking Noninterest Income

	Three Months Ended		Percent Change (%)	Six Months Ended		Percent Change (%)
	June 30			June 30		
	2008	2007		2008	2007	
Noninterest income (thousands):						
Origination income	\$ 134,095	\$ 67,281	99.3 +	\$ 218,151	\$ 130,922	66.6 +
Servicing income	42,614	(3,496)	NM	111,957	(488)	NM
Other	(4,291)	7,515	NM	1,022	13,963	92.7 -
Total mortgage banking noninterest income	\$ 172,418	\$ 71,300	141.8 +	\$ 331,130	\$ 144,397	129.3 +
Mortgage banking statistics (millions):						
Refinance originations	\$ 3,292.3	\$ 3,038.0	8.4 +	\$ 8,068.8	\$ 5,842.7	38.1 +
Home-purchase originations	3,533.5	5,054.4	30.1 -	6,266.5	8,552.1	26.7 -
Mortgage loan originations	\$ 6,825.8	\$ 8,092.4	15.7 -	\$14,335.3	\$ 14,394.8	.4 -

Servicing portfolio - owned	\$98,384.2	\$105,652.0	6.9	-	\$98,384.2	\$105,652.0	6.9	-
NM - not meaningful								

Capital Markets Noninterest Income

Capital markets noninterest income, the major component of revenue in the Capital Markets segment, is generated from the purchase and sale of securities as both principal and agent, and from other fee sources including structured finance, equity research, investment banking, loans sales, correspondent banking and portfolio advisory activities. Inventory positions are limited to the procurement of securities solely for distribution to customers by the sales staff. A portion of the inventory is hedged to protect against movements in fair value due to changes in interest rates.

Revenues from fixed income sales increased \$56.7 million compared to second quarter 2007 reflecting the effects of a steeper yield curve resulting from the Federal Reserve's aggressive rate cuts during the first half of 2008 and the associated positive impact on the demand for fixed income products. Revenues from other products decreased \$19.5 million in comparison to second quarter 2007. This decrease is primarily attributable

to the effect of credit market disruptions on the pooled trust preferred product for which no transaction revenues were recorded in the second quarter 2008.

Table 4 - Capital Markets Noninterest Income

(Dollars in thousands)	Three Months Ended			Six Months Ended		
	June 30 2008	June 30 2007	Growth Rate (%)	June 30 2008	June 30 2007	Growth Rate (%)
Noninterest income:						
Fixed income	\$105,002	\$48,258	117.6 +	\$257,210	\$ 94,571	172.0 +
Other product revenue	17,336	36,796	52.9 -	(3,415)	77,596	NM
Total capital markets noninterest income	\$122,338	\$85,054	43.8 +	\$253,795	\$172,167	47.4 +

NM - not meaningful

Other Noninterest Income

Other noninterest income includes deposit transactions and cash management fees, revenue from loan sales and securitizations, insurance commissions, trust services and investment management fees, net securities gains and losses and other noninterest income. Deposit transactions and cash management fees increased \$3.7 million or 8.6 percent, reflecting growth in demand deposits and pricing initiatives. Revenue from loan sales and securitizations decreased \$16.6 million due to decreased value of residuals from prior securitizations and the effects of credit market disruptions as the market for consumer loans disappeared in the latter half of 2007. Trust services and investment management income dropped 16.4 percent or \$1.7 million due to market conditions and a change in product mix. Insurance commissions decreased 11.1 percent or \$.9 million from \$7.7 million in 2007 primarily due to a soft property and casualty market. Other revenues related to deferred compensation plans decreased \$6.3 million in comparison to second quarter 2007, which is offset by a related decrease in noninterest expense associated with these plans.

NONINTEREST EXPENSE

Total noninterest expense for second quarter 2008 increased 2 percent to \$465.8 million from \$457.2 million in 2007. This increase includes a \$46.2 million effect of no longer deferring origination costs on warehouse loans accounted for at elected fair value in second quarter 2008. This amount is offset by a corresponding increase in mortgage banking noninterest income. Additionally, results for second quarter 2008 include \$26.0 million of charges associated with implementation of restructuring, repositioning and efficiency initiatives compared to \$39.3 million in 2007. See discussion of the restructuring, repositioning and efficiency initiatives below for further details.

Employee compensation, incentives and benefits (personnel expense), the largest component of noninterest expense, increased to \$277.1 million from \$258.2 million in 2007 reflecting the effects of no longer deferring compensation directly attributable to the origination of mortgage loans accounted for at elected fair value and increased production levels in capital markets. Partially offsetting these amounts is the effects of FHN's efficiency initiatives as headcount and production was significantly reduced in comparison to second quarter 2007.

Also included in noninterest expense was a decrease of \$7.5 million compared to second quarter 2007 related to deferred compensation plans for which, as discussed above, there was a related decrease in revenue. Other noninterest expense increased by 4.7 percent as increases related to FDIC premiums, the recognition of origination costs for loans recognized at fair value, and expenses related to foreclosed property, were partially offset by \$8.4 million of costs incurred in 2007 to settle a legal matter and general declines in 2008 due to benefits from the implementation of efficiency initiatives.

INCOME TAXES

The effective tax rate for second quarter 2008 was predominantly due to the effect of permanent items and the level of pre-tax income for the quarter. The provision for income taxes includes \$10.5 million of favorable permanent differences. The favorable permanent differences include \$8.0 million of benefits from affordable housing credits and

increases in life insurance cash surrender values. It also includes another \$2.0 million of benefits from the favorable resolution of outstanding tax issues including interest with taxing authorities.

PROVISION FOR LOAN LOSSES / ASSET QUALITY

The provision for loan losses is the charge to earnings that management determines to be necessary to maintain the allowance for loan losses at an adequate level reflecting management's estimate of probable incurred losses in the loan portfolio. Analytical models based on loss experience adjusted for current events, trends and economic conditions are used by management to determine the amount of provision to be recognized and to assess the adequacy of the loan loss allowance. In response to economic conditions, in 2008 and fourth quarter 2007, FHN conducted focused portfolio management activities to identify problem credits and to ensure appropriate provisioning and reserve levels. See Critical Accounting Policies for additional discussion of these procedures. The provision for loan losses was \$220.0 million in second quarter 2008 compared to \$44.4 million in second quarter 2007. The provision for loan losses increased \$175.6 million, reflecting recognition of portfolio stress due to declining economic conditions, especially in home equity loans, OTC loans and commercial loans. The net charge-off ratio increased to 235 basis points in second quarter 2008 from 41 basis points in second quarter 2007 as net charge-offs grew to \$127.7 million from \$23.0 million, driven by problem loans primarily in the national construction portfolios and an increase in problem loans in the home equity portfolio.

Table 5 - Net Charge-off Ratios *

	Three Months Ended June 30	
	2008	2007
Total commercial	1.73%	.32%
Retail real estate	2.94	.43
Other retail	4.19	2.76
Credit card receivables	5.63	3.16
Total net charge-offs	2.35	.41

*Net charge-off ratios are calculated based on average loans, net of unearned income.

Table 7 provides information on the relative size of each loan portfolio.

Nonperforming loans in the loan portfolio were \$760.1 million on June 30, 2008, compared to \$128.0 million on June 30, 2007. The ratio of nonperforming loans in the loan portfolio to total loans was 342 basis points on June 30, 2008, and 57 basis points on June 30, 2007. The increase in nonperforming loans is primarily attributable to deterioration in the one-time close and homebuilder/condominiums portfolios, due primarily to the slowdown in the housing market. Nonperforming one-time close loans (the Retail Real Estate Construction line on Table 7) increased to \$268.1 million on June 30, 2008 from \$56.1 million on June 30, 2007. Nonperforming homebuilder/condominiums loans increased to \$297.7 million on June 30, 2008 from \$42.1 million on June 30, 2007. These portfolios are included in the Commercial Real Estate Construction line of Table 7.

Nonperforming assets were \$876.1 million on June 30, 2008, compared to \$194.1 million on June 30, 2007. The nonperforming assets ratio was 388 basis points on June 30, 2008 and 81 basis points last year. In addition to the increase in nonperforming loans, foreclosed assets increased \$52.5 million, which is primarily attributable to deterioration in the national construction portfolios. Foreclosed assets are recognized at net realizable value, including estimated costs of disposal, at foreclosure. The nonperforming asset ratio is expected to remain under pressure throughout the balance of the current economic downturn.

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Allowance to nonperforming loans in the loan portfolio	.76x	1.80x
Allowance to annualized net charge-offs	1.13x	2.50x

* Includes 90 days past due loans.

** Guaranteed loans include FHA, VA, student and GNMA loans repurchased through the GNMA repurchase program.

*** Amount of off-balance sheet commitments for which a reserve has been provided.

**** 2Q 2008 includes \$20,788 of loans held-to-maturity.

Certain previously reported amounts ha