FIRST HORIZON NATIONAL CORP
Form 10-Q
August 08, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from to

Commission File Number 001-15185

First Horizon National Corporation

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding on June 30, 2016
Common Stock, $.625 par value	232,019,031

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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 condition and results of operations for the interim periods presented.

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CONSOLIDATED CONDENSED STATEMENTS OF CONDITION

	First Horizon National Corporation		
	June 30		December 31
(Dollars in thousands, except per share amounts)(Unaudited)	**2016**	2015	2015
Assets:			
Cash and due from banks	**$ 283,648**	$ 274,256	$ 300,811
Federal funds sold	**40,570**	77,039	114,479
Securities purchased under agreements to resell (Note 15)	**881,732**	816,991	615,773
Total cash and cash equivalents	**1,205,950**	1,168,286	1,031,063
Interest-bearing cash	**321,743**	344,944	602,836
Trading securities	**1,162,959**	1,133,490	881,450
Loans held-for-sale (a)	**117,976**	127,196	126,342
Securities available-for-sale (Note 3)	**4,009,243**	3,648,860	3,929,846
Securities held-to-maturity (Note 3)	**14,333**	4,306	14,320
Loans, net of unearned income (Note 4) (b)	**18,589,337**	16,936,772	17,686,502
Less: Allowance for loan losses (Note 5)	**199,807**	221,351	210,242
Total net loans	**18,389,530**	16,715,421	17,476,260
Goodwill (Note 6)	**191,307**	145,932	191,307
Other intangible assets, net (Note 6)	**23,616**	26,922	26,215
Fixed income receivables	**219,939**	91,069	63,660
Premises and equipment, net (June 30, 2016 includes $10.0 million classified as held-for-sale)	**279,676**	269,507	275,619
Real estate acquired by foreclosure (c)	**20,053**	40,268	33,063
Derivative assets (Note 14)	**196,989**	115,230	104,365
Other assets	**1,387,756**	1,405,961	1,436,291
Total assets	**$ 27,541,070**	$ 25,237,392	$ 26,192,637
Liabilities and equity:			
Deposits:			
Savings	**$ 7,960,182**	$ 7,462,642	$ 7,811,191
Time deposits	**741,992**	769,132	788,487
Other interest-bearing deposits	**5,720,628**	4,675,742	5,388,526
Certificates of deposit $100,000 and more	**522,643**	400,021	443,389
Interest-bearing	**14,945,445**	13,307,537	14,431,593
Noninterest-bearing	**5,684,732**	5,366,936	5,535,885
Total deposits	**20,630,177**	18,674,473	19,967,478
Federal funds purchased	**508,669**	556,862	464,166

Securities sold under agreements to repurchase (Note 15)	**451,129**	311,760	338,133
Trading liabilities	**789,540**	732,564	566,019
Other short-term borrowings	**543,033**	150,350	137,861
Term borrowings	**1,076,943**	1,555,272	1,312,677
Fixed income payables	**90,400**	54,301	23,072
Derivative liabilities (Note 14)	**170,619**	109,815	108,339
Other liabilities	**588,636**	574,090	635,306
Total liabilities	**24,849,146**	22,719,487	23,553,051
Equity:			
First Horizon National Corporation Shareholders Equity:			
Preferred stock Series A, non-cumulative perpetual, no par value, liquidation preference of $100,000 per share (shares authorized 1,000; shares issued 1,000 on June 30, 2016, June 30, 2015 and December 31, 2015)	**95,624**	95,624	95,624
Common stock $.625 par value (shares authorized 400,000,000; shares issued 232,019,031 on June 30, 2016; 234,020,798 on June 30, 2015; and 238,586,637 on December 31, 2015)	**145,012**	146,263	149,117
Capital surplus	**1,362,528**	1,371,712	1,439,303
Undivided profits	**945,663**	797,123	874,303
Accumulated other comprehensive loss, net (Note 8)	**(152,334)**	(188,248)	(214,192)
Total First Horizon National Corporation Shareholders Equity	**2,396,493**	2,222,474	2,344,155
Noncontrolling interest	**295,431**	295,431	295,431
Total equity	**2,691,924**	2,517,905	2,639,586
Total liabilities and equity	**$ 27,541,070**	$ 25,237,392	$ 26,192,637

Certain previously reported amounts have been revised to reflect the retroactive effect of the adoption of ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. See Note 1 Financial Information for additional information.

See accompanying notes to consolidated condensed financial statements.

(a) June 30, 2016 and 2015 and December 31, 2015 include $21.2 million, $20.2 million and $22.4 million, respectively, of held-for-sale consumer mortgage loans secured by residential real estate in process of foreclosure.
(b) June 30, 2016 and 2015 and December 31, 2015 include $31.1 million, $28.3 million and $29.7 million, respectively, of held-to-maturity consumer mortgage loans secured by residential real estate properties in process of foreclosure.
(c) June 30, 2016 and 2015 and December 31, 2015 include $9.6 million, $18.7 million and $14.6 million, respectively, of foreclosed residential real estate.

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	First Horizon National Corporation			
	Three Months Ended June 30		Six Months Ende June 30	
ars and shares in thousands except per share data, unless otherwise noted)(Unaudited)	**2016**	2015	**2016**	201
est income:				
est and fees on loans	**$ 163,054**	$ 153,283	**$ 321,477**	$ 297,
est on investment securities available-for-sale	**23,953**	23,288	**48,427**	46,
est on investment securities held-to-maturity	**198**	66	**395**	
est on loans held-for-sale	**1,198**	1,350	**2,459**	2,
est on trading securities	**8,020**	8,951	**15,771**	18,
est on other earning assets	**953**	92	**2,511**	
interest income	**197,376**	187,030	**391,040**	365,
est expense:				
est on deposits:				
gs	**4,146**	2,970	**8,336**	6,
deposits	**1,148**	1,324	**2,260**	2,
r interest-bearing deposits	**2,526**	1,104	**4,830**	2,
ficates of deposit $100,000 and more	**1,326**	830	**2,537**	1,
est on trading liabilities	**3,782**	3,770	**7,821**	7,
est on short-term borrowings	**1,203**	726	**2,331**	1,
est on term borrowings	**6,981**	9,666	**14,587**	19,
interest expense	**21,112**	20,390	**42,702**	41,
nterest income	**176,264**	166,640	**348,338**	323,
sion for loan losses	**4,000**	2,000	**7,000**	7,
nterest income after provision for loan losses	**172,264**	164,640	**341,338**	316,
nterest income:				
l income	**77,913**	56,241	**144,890**	117,
sit transactions and cash management	**26,991**	28,430	**53,828**	54,
erage, management fees and commissions	**10,665**	12,456	**21,080**	23,
services and investment management	**7,224**	7,416	**13,789**	14,
card income	**6,558**	5,884	**11,817**	11,
-owned life insurance	**3,743**	3,391	**7,132**	6,
r service charges	**2,996**	3,043	**5,709**	5,
ance commissions	**552**	654	**1,039**	1,
y securities gains/(losses), net (Note 3)	**99**	8	**19**	
securities gains/(losses), net (Note 3)			**1,654**	
ther income and commissions (Note 7)	**8,773**	12,778	**18,862**	23,

noninterest income	**145,514**	130,301	**279,819**	259,
sted gross income after provision for loan losses	**317,778**	294,941	**621,157**	576,
nterest expense:				
oyee compensation, incentives, and benefits	**143,370**	127,970	**280,521**	259,
pancy	**12,736**	11,764	**25,340**	23,
puter software	**11,226**	11,340	**22,813**	22,
ations services	**10,521**	10,033	**20,421**	19,
pment rentals, depreciation, and maintenance	**7,182**	7,983	**13,341**	15,
l fees	**5,891**	4,509	**10,770**	8,
C premium expense	**4,848**	4,952	**9,769**	8,
rtising and public relations	**4,481**	4,349	**9,454**	9,
ssional fees	**4,284**	5,218	**9,483**	8,
munications and courier	**3,039**	3,801	**6,789**	7,
r insurance and taxes	**3,014**	3,455	**6,327**	6,
ract employment and outsourcing	**2,497**	3,337	**4,922**	7,
rtization of intangible assets	**1,299**	1,298	**2,599**	2,
closed real estate	**(432)**	1,329	**(690)**	1,
rchase and foreclosure provision	**(31,400)**		**(31,400)**	
ther expense (Note 7)	**44,266**	17,056	**63,290**	193,
noninterest expense	**226,822**	218,394	**453,749**	594,
me/(loss) before income taxes	**90,956**	76,547	**167,408**	(18,
sion/(benefit) for income taxes	**30,016**	21,590	**54,255**	(
ncome/(loss)	**$ 60,940**	$ 54,957	**$ 113,153**	$ (17,
ncome attributable to noncontrolling interest	**2,852**	2,851	**5,703**	5,
ncome/(loss) attributable to controlling interest	**$ 58,088**	$ 52,106	**$ 107,450**	$ (23,
rred stock dividends	**1,550**	1,550	**3,100**	3,
ncome/(loss) available to common shareholders	**$ 56,538**	$ 50,556	**$ 104,350**	$ (26,
c earnings/(loss) per share (Note 9)	**$ 0.24**	$ 0.22	**$ 0.45**	$ ((
ed earnings/(loss) per share (Note 9)	**$ 0.24**	$ 0.22	**$ 0.44**	$ ((
ghted average common shares (Note 9)	**231,573**	232,800	**233,112**	232,
ed average common shares (Note 9)	**233,576**	234,669	**235,121**	232,
dividends declared per common share	**$ 0.07**	$ 0.06	**$ 0.14**	$ (

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

See accompanying notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

	First Horizon National Corporation			
	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands) (Unaudited)	**2016**	2015	**2016**	2015
Net income/(loss)	**$ 60,940**	$ 54,957	**$ 113,153**	$ (17,448)
Other comprehensive income/(loss), net of tax:				
Net unrealized gains/(losses) on securities available-for-sale	**16,037**	(20,100)	**55,197**	(2,096)
Net unrealized gains/(losses) on cash flow hedges	**1,226**		**4,691**	
Net unrealized gains/(losses) on pension and other postretirement plans	**844**	1,011	**1,970**	2,094
Other comprehensive income/(loss)	**18,107**	(19,089)	**61,858**	(2)
Comprehensive income/(loss)	**79,047**	35,868	**175,011**	(17,450)
Comprehensive income attributable to noncontrolling interest	**2,852**	2,851	**5,703**	5,609
Comprehensive income/(loss) attributable to controlling interest	**$ 76,195**	$ 33,017	**$ 169,308**	$ (23,059)
Income tax expense/(benefit) of items included in Other Comprehensive Income/(Loss):				
Net unrealized gains/(losses) on securities available-for-sale	**$ 9,967**	$ (12,651)	**$ 34,304**	$ (1,320)
Net unrealized gains/(losses) on cash flow hedges	**762**		**2,915**	
Net unrealized gains/(losses) on pension and other postretirement plans	**525**	636	**1,225**	1,318

See accompanying notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

	First Horizon National Corporation					
	2016			2015		
ollars in thousands except per share data)(Unaudited)	Controlling Interest	Noncontrolling Interest	Total	Controlling Interest	Noncontrolling Interest	Total
lance, January 1	**$ 2,344,155**	**$ 295,431**	**$ 2,639,586**	$ 2,286,159	$ 295,431	$ 2,581,59
t income/(loss)	**107,450**	**5,703**	**113,153**	(23,057)	5,609	(17,44
her comprehensive income/(loss) (a)	**61,858**		**61,858**	(2)		(
mprehensive income/(loss)	**169,308**	**5,703**	**175,011**	(23,059)	5,609	(17,45
sh dividends declared:						
eferred stock ($3,100 per share for the six months ended ne 30, 2016 and 2015)	**(3,100)**		**(3,100)**	(3,100)		(3,10
mmon stock ($.14 and $.12 per share for the six onths ended June 30, 2016 and 2015, respectively)	**(32,991)**		**(32,991)**	(28,305)		(28,30
mmon stock repurchased (b)	**(89,698)**		**(89,698)**	(20,031)		(20,03
mmon stock issued for:						
ock options and restricted stock equity awards	**1,509**		**1,509**	4,427		4,42
ock-based compensation expense	**7,796**		**7,796**	6,474		6,47
vidends declared noncontrolling interest of subsidiary eferred stock		**(5,703)**	**(5,703)**		(5,609)	(5,60
x benefit/(benefit reversal) stock based compensation pense	**(486)**		**(486)**	(91)		(9
lance, June 30	**$ 2,396,493**	**$ 295,431**	**$ 2,691,924**	$ 2,222,474	$ 295,431	$ 2,517,90

See accompanying notes to consolidated condensed financial statements.

(a) Due to the nature of the preferred stock issued by FHN and its subsidiaries, all components of Other comprehensive income/(loss) have been attributed solely to FHN as the controlling interest holder.

(b) 2016 and 2015 include $86.4 million and $15.8 million, respectively, repurchased under share repurchase programs.

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	First Horizon National Corporation	
	Six Months Ended June 30	
(Dollars in thousands)(Unaudited)	**2016**	2015
Operating Activities		
Net income/(loss)	**$ 113,153**	$ (17,448)
Adjustments to reconcile net income/(loss) to net cash provided/(used) by operating activities:		
Provision for loan losses	**7,000**	7,000
Provision/(benefit) for deferred income taxes	**34,366**	(1,592)
Depreciation and amortization of premises and equipment	**16,036**	18,229
Amortization of intangible assets	**2,599**	2,596
Net other amortization and accretion	**10,722**	11,731
Net (increase)/decrease in derivatives	**564**	(615)
Repurchase and foreclosure provision	**(31,400)**	
Fair value adjustment to foreclosed real estate	**850**	1,660
Litigation and regulatory matters	**25,652**	120
Stock-based compensation expense	**7,796**	6,474
(Tax benefit)/benefit reversal stock based compensation expense	**486**	91
Equity securities (gains)/losses, net	**(19)**	(284)
Debt securities (gains)/losses, net	**(1,654)**	
Net (gains)/losses on sale/disposal of fixed assets	**4,155**	(2,872)
Loans held-for-sale:		
Purchases	**(5,953)**	(1,178)
Gross proceeds from settlements and sales	**14,668**	15,561
(Gain)/loss due to fair value adjustments and other	**(349)**	(294)
Net (increase)/decrease in:		
Trading securities	**(283,283)**	59,890
Fixed income receivables	**(156,279)**	(48,581)
Interest receivable	**6,751**	9,955
Other assets	**(36,559)**	(48,727)
Net increase/(decrease) in:		
Trading liabilities	**223,521**	138,250
Fixed income payables	**67,328**	36,144
Interest payable	**(5,025)**	(7,613)
Other liabilities	**(36,422)**	(67,405)
Total adjustments	**(134,449)**	128,540
Net cash provided/(used) by operating activities	**(21,296)**	111,092
Investing Activities		
Available-for-sale securities:		
Sales	**1,543**	284
Maturities	**315,301**	327,315

Purchases	**(311,592)**	(427,717)
Premises and equipment:		
Sales	**2,786**	40,369
Purchases	**(27,034)**	(15,751)
Net (increase)/decrease in:		
Loans	**(904,558)**	(722,062)
Interests retained from securitizations classified as trading securities	**1,774**	1,011
Interest-bearing cash	**281,093**	1,277,023
Net cash provided/(used) by investing activities	**(640,687)**	480,472
Financing Activities		
Common stock:		
Stock options exercised	**807**	4,715
Cash dividends paid	**(30,960)**	(26,020)
Repurchase of shares (a)	**(89,698)**	(20,031)
Tax benefit/(benefit reversal) stock based compensation expense	**(486)**	(91)
Cash dividends paid preferred stock noncontrolling interest	**(5,672)**	(5,703)
Cash dividends paid Series A preferred stock	**(3,100)**	(3,100)
Term borrowings:		
Payments/maturities	**(259,938)**	(312,808)
Net increase/(decrease) in:		
Deposits	**663,246**	605,867
Short-term borrowings	**562,671**	(737,512)
Net cash provided/(used) by financing activities	**836,870**	(494,683)
Net increase/(decrease) in cash and cash equivalents	**174,887**	96,881
Cash and cash equivalents at beginning of period	**1,031,063**	1,071,405
Cash and cash equivalents at end of period	**$ 1,205,950**	$ 1,168,286
Supplemental Disclosures		
Total interest paid	**$ 47,355**	$ 48,734
Total taxes paid	**11,334**	14,859
Total taxes refunded	**2,425**	215
Transfer from loans to other real estate owned	**3,546**	8,293

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

See accompanying notes to consolidated condensed financial statements.

(a) 2016 and 2015 include $86.3 million and $15.8 million, respectively, repurchased under share repurchase programs.

Notes to the Consolidated Condensed Financial Statements (Unaudited)

Note 1   Financial Information

Basis of Accounting. The unaudited interim consolidated condensed financial statements of First Horizon National Corporation (FHN), including its subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States of America and follow general practices within the industries in which it operates. This preparation requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions are based on information available as of the date of the financial statements and could differ from actual results. In the opinion of management, all necessary adjustments have been made for a fair presentation of financial position and results of operations for the periods presented. These adjustments are of a normal recurring nature unless otherwise disclosed in this Quarterly Report on Form 10-Q. The operating results for the interim 2016 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 Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2015.

Summary of Accounting Changes. Effective January 1, 2016, FHN early adopted the provisions of ASU 2016-05, Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships , on a prospective basis. ASU 2016-05 clarifies that a change in the counterparty of a derivative instrument that has been designated as the hedging instrument in an accounting hedge relationship does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. FHN considers the revised guidance to better reflect the nature of hedge accounting relationships by clarifying that, when considered solely, the counterparty is not a critical term in a hedge relationship. Because FHN has applied specific SEC staff guidance for novation (to facilitate central clearing requirements) of derivatives to prior and existing accounting hedge relationships, adoption of ASU 2016-05 had no effect on FHN.

Effective January 1, 2016, FHN early adopted the provisions of ASU 2016-06, Contingent Put and Call Options in Debt Instruments , which resolves diversity in practice for the bifurcation assessment when a contingent put or call option is embedded within a hybrid debt instrument. ASU 2016-06 clarifies that an entity is not required to assess whether the triggering event is related to interest rate or credit risks when performing the bifurcation analysis. FHN s existing bifurcation assessment process conforms to the methodology outlined in ASU 2016-06.

Effective January 1, 2016, FHN adopted the provisions of ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition in determining expense recognition for the award. Thus, compensation cost is recognized over the requisite service period based on the probability of achievement of the performance condition. Expense is adjusted after the requisite service period for changes in the probability of achievement. The adoption of ASU 2014-12 had no effect on FHN.

Effective January 1, 2016, FHN adopted the provisions of ASU 2015-02, Amendments to the Consolidation Analysis. ASU 2015-02 revises current consolidation guidance to modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities. ASU 2015-02 also eliminates the presumption that a general partner should consolidate a limited partnership, revises the consolidation analysis for reporting entities that have fee arrangements and related party relationships with variable interest entities, and provides a scope exception for entities with interests in registered money market funds. FHN has evaluated the provisions of ASU 2015-02 on its consolidation assessments and there was not a significant effect upon adoption.

Effective January 1, 2016, FHN adopted the provisions of ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented as a direct reduction from the carrying value of that debt liability, consistent with debt discounts. ASU 2015-03 requires application on a retrospective basis, with prior periods revised to reflect the effects of adoption. Consistent with prior requirements, FHN previously classified debt issuance costs within Other assets in the Consolidated Condensed Statements of Condition. The adoption of ASU 2015-03 had no effect on FHN s recognition of interest expense. The effects of the retrospective application of the change in presentation of debt issuance costs are summarized in the table below.

	As of June 30	As of December 31	
(Dollars in thousands)	2015	2015	2014
Increase/(decrease) to previously reported Consolidated Statements of Condition amounts			
Other assets	$ (2,375)	$ (2,499)	$ (2,764)
Term Borrowings	(2,375)	(2,499)	(2,764)

Note 1 Financial Information (Continued)

Accounting Changes Issued but Not Currently Effective

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 does not change revenue recognition for financial instruments. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This is accomplished through a five-step recognition framework involving 1) the identification of contracts with customers, 2) identification of performance obligations, 3) determination of the transaction price, 4) allocation of the transaction price to the performance obligations and 5) recognition of revenue as performance obligations are satisfied. Additionally, qualitative and quantitative information is required for disclosure regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In February 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations , which provides additional guidance on whether an entity should recognize revenue on a gross or net basis, based on which party controls the specified good or service before that good or service is transferred to a customer. In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing , which clarifies the original guidance included in ASU 2014-09 for identification of the goods or services provided to customers and enhances the implementation guidance for licensing arrangements. ASU 2016-12, Narrow-Scope Improvements and Practical Expedients was issued in May 2016 to provide additional guidance for the implementation and application of ASU 2014-09. The effective date of these ASUs has been deferred to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted for annual reporting periods beginning after December 15, 2016, and associated interim periods. Transition to the new requirements may be made by retroactively revising prior financial statements (with certain practical expedients permitted) or by a cumulative effect through retained earnings. If the latter option is selected, additional disclosures are required for comparability. FHN is evaluating the effects of these ASUs on its revenue recognition practices.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern. ASU 2014-15 requires an entity s management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern within one year after the date that the financial statements are issued. If such events or conditions exist, additional disclosures are required and management should evaluate whether its plans sufficiently alleviate the substantial doubt. ASU 2014-15 is effective for the annual period ending after December 15, 2016 and all interim and annual periods thereafter. The provisions of ASU 2014-15 are not anticipated to affect FHN.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 makes several revisions to the accounting, presentation and disclosure for financial instruments. Equity investments (except those accounted for under the equity method or those that result in consolidation of the investee) are required to be measured at fair value with changes in fair value recognized in net income. An entity may elect to measure equity investments that do not have readily determinable market values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar instruments from the same issuer. ASU 2016-01 also requires a qualitative impairment review for equity investments without readily determinable fair values, with measurement at fair value required if impairment is determined to exist. For liabilities for which fair value has been elected, ASU 2016-01 revises current accounting to record the portion of fair value changes resulting from instrument-specific credit risk within other comprehensive income rather than earnings. Additionally, ASU 2016-01 clarifies that the need for a valuation allowance on a deferred

tax asset related to available-for-sale securities should be assessed in combination with all other deferred tax assets rather than being assessed in isolation. ASU 2016-01 also makes several changes to existing fair value presentation and disclosure requirements, including a provision that all disclosures must use an exit price concept in the determination of fair value. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. FHN is evaluating the impact of ASU 2016-01 on its current accounting and disclosure practices.

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

In transition to ASU 2016-02, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply, which would result in continuing to account for leases that commence before the effective date in accordance with previous requirements (unless the lease is modified) except that lessees are required to recognize a right-of-

Note 1 Financial Information (Continued)

use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous requirements. ASU 2016-02 also requires expanded qualitative and quantitative disclosures to assess the amount, timing, and uncertainty of cash flows arising from lease arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. FHN is evaluating the impact of ASU 2016-02 on its current accounting and disclosure practices.

In March 2016, the FASB issued ASU 2016-04, Recognition of Breakage of Certain Prepaid Stored-Value Products which indicates that liabilities related to the sale of prepaid-stored value products are considered financial liabilities and should have a breakage estimate applied for estimated unused funds. ASU 2016-04 does not apply to stored-value products that can only be redeemed for cash, are subject to escheatment or are linked to a segregated bank account. ASU 2016-04 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. FHN is evaluating the impact of ASU 2016-04 on its current accounting and disclosure practices.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting which makes several revisions to equity compensation accounting. Under the new guidance all excess tax benefits and deficiencies that occur when an award vests, is exercised, or expires will be recognized in income tax expense as discrete period items. Previously, these transactions were typically recorded directly within equity. Consistent with this change, excess tax benefits and deficiencies will no longer be included within estimated proceeds when performing the treasury stock method for calculation of diluted earnings per share. Excess tax benefits will also be recognized at the time an award is exercised or vests compared to the current requirement to delay recognition until the deduction reduces taxes payable. The presentation of excess tax benefits in the statement of cash flows will shift to an operating activity from the current classification as a financing activity.

ASU 2016-09 also provides an accounting policy election to recognize forfeitures of awards as they occur rather than the current requirement to estimate forfeitures from inception. Further, ASU 2016-09 permits employers to use a net-settlement feature to withhold taxes on equity compensation awards up to the maximum statutory tax rate without affecting the equity classification of the award. Under current guidance, withholding of equity awards in excess of the minimum statutory requirement results in liability classification for the entire award. The related cash remittance by the employer for employee taxes will be treated as a financing activity in the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. Transition to the new guidance will be accomplished through a combination of retrospective, cumulative-effect adjustment to equity and prospective methodologies. FHN is evaluating the impact of ASU 2016-09 on its current equity compensation accounting and disclosure practices.

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

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

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

The provisions of ASU 2016-13 will be generally be adopted through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in the year of adoption. Prospective implementation is required for debt securities for which an other-than-temporary-impairment (OTTI) had been previously recognized. Amounts previously recognized in accumulated other comprehensive income (AOCI) as of the date of adoption that relate to improvements in cash flows expected to be collected will continue to be accreted into income over the remaining life of the asset. Recoveries of amounts previously written off relating to improvements in cash flows after the date of adoption will be recorded in earnings when received. A prospective transition approach

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Note 1 Financial Information (Continued)

will be used for existing PCD assets where upon adoption, the amortized cost basis will be adjusted to reflect the addition of the allowance for credit losses. Thus, an entity will not be required to reassess its purchased financial assets that exist as of the date of adoption to determine whether they would have met at acquisition the new criteria of more-than insignificant credit deterioration since origination. An entity will accrete the remaining noncredit discount (based on the revised amortized cost basis) into interest income at the effective interest rate at the adoption date.

ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in fiscal years beginning after December 15, 2018. FHN is evaluating the impact of ASU 2016-13 on its current accounting and disclosure practices. Since the CECL methodology encompasses a life of loan requirement for the recognition of credit losses, the estimated amount of such losses will be larger than the estimate of probable incurred losses under current standards. The extent of this difference will be dependent upon economic considerations and loan portfolio characteristics at the time of adoption.

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Note 2 Acquisitions and Divestitures

On October 2, 2015, FHN completed its acquisition of TrustAtlantic Financial Corporation (TrustAtlantic Financial or TAF), and its wholly-owned bank subsidiary TrustAtlantic Bank (TAB), for an aggregate of 5,093,657 shares of FHN common stock and $23.9 million in cash in a transaction valued at $96.7 million. Prior to the acquisition TAF and TAB were headquartered in Raleigh, North Carolina, where TAB had five branches located in the communities of Raleigh, Cary and Greenville. In relation to the acquisition, FHN acquired approximately $400 million in assets, including approximately $282 million in loans, and assumed approximately $344 million of TAB deposits. FHN recorded $45.4 million in goodwill associated with the acquisition, representing the excess of acquisition consideration over the estimated fair value of net assets acquired.

See Note 2 Acquisitions and Divestitures in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2015, for additional information about the TAF acquisition.

In second quarter 2016, FTBNA signed an agreement with GE Capital to purchase two regional groups of restaurant franchise loans totaling approximately $.6 billion. The acquired loans will be combined with existing FTBNA relationships to establish a restaurant franchise finance specialty lending business. The transaction is expected to close in third quarter 2016.

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

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Note 3 Investment Securities

The following tables summarize FHN s investment securities on June 30, 2016 and 2015:

	June 30, 2016			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. treasuries	$ 100	$	$	$ 100
Government agency issued mortgage-backed securities (MBS)	1,880,831	65,391		1,946,222
Government agency issued collateralized mortgage obligations (CMO)	1,845,205	30,907	(1,296)	1,874,816
States and municipalities	1,500			1,500
Equity and other (a)	186,607		(2)	186,605
Total securities available-for-sale (b)	**$ 3,914,243**	**$ 96,298**	**$ (1,298)**	**$ 4,009,243**
Securities held-to-maturity:				
States and municipalities	$ 4,333	$ 407	$	$ 4,740
Corporate bonds	10,000	361		10,361
Total securities held-to-maturity	**$ 14,333**	**$ 768**	**$**	**$ 15,101**

(a) Includes restricted investments in FHLB-Cincinnati stock of $87.9 million and FRB stock of $68.6 million. The remainder is money market and cost method investments.

(b) Includes $3.4 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.

	June 30, 2015			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. treasuries	$ 100	$	$	$ 100
Government agency issued MBS	804,841	29,068	(3,269)	830,640
Government agency issued CMO	2,624,151	20,836	(19,701)	2,625,286
Other U.S. government agencies	1,539	21		1,560
States and municipalities	9,455			9,455
Equity and other (a)	182,059		(240)	181,819
Total securities available-for-sale (b)	$ 3,622,145	$ 49,925	$ (23,210)	$ 3,648,860

Securities held-to-maturity:								
States and municipalities	$	4,306	$	1,050	$		$	5,356
Total securities held-to-maturity	$	4,306	$	1,050	$		$	5,356

(a) Includes restricted investments in FHLB-Cincinnati stock of $87.9 million and FRB stock of $65.8 million. The remainder is money market and cost method investments.

(b) Includes $3.2 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.

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Note 3 Investment Securities (Continued)

The amortized cost and fair value by contractual maturity for the available-for-sale and held-to-maturity securities portfolios on June 30, 2016, are provided below:

	Held-to-Maturity		Available-for-Sale	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$	$	$ 1,500	$ 1,500
After 1 year; within 5 years			100	100
After 5 years; within 10 years	10,000	10,361		
After 10 years	4,333	4,740		
Subtotal	14,333	15,101	1,600	1,600
Government agency issued MBS and CMO (a)			3,726,036	3,821,038
Equity and other			186,607	186,605
Total	**$ 14,333**	**$ 15,101**	**$ 3,914,243**	**$ 4,009,243**

(a) Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The table below provides information on gross gains and gross losses from available-for-sale investment securities for the three and six months ended June 30:

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Gross gains on sales of securities	**$ 162**	$ 8	**$ 3,999**	$ 284
Gross (losses) on sales of securities	**(63)**		**(2,326)**	
Net gain/(loss) on sales of securities (a)	**$ 99**	$ 8	**$ 1,673**	$ 284

(a) Cash proceeds for the three months ended June 30, 2016 were $.6 million; cash proceeds for the three months ended June 30, 2015 were not material. Proceeds for the six months ended June 30, 2016 and 2015, respectively, were $1.5 million and $.3 million. Six months ended June 30, 2016 includes a $1.7 million gain from an exchange of approximately $294 million of AFS debt securities.

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Note 3 Investment Securities (Continued)

The following tables provide information on investments within the available-for-sale portfolio that had unrealized losses as of June 30, 2016 and 2015:

	As of June 30, 2016					
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government agency issued CMO	$ 26,121	$ (10)	$ 186,797	$ (1,286)	$ 212,918	$ (1,296)
Total debt securities	26,121	(10)	186,797	(1,286)	212,918	(1,296)
Equity	7	(2)			7	(2)
Total temporarily impaired securities	**$ 26,128**	**$ (12)**	**$ 186,797**	**$ (1,286)**	**$ 212,925**	**$ (1,298)**

	As of June 30, 2015					
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government agency issued CMO	$ 845,534	$ (7,734)	$ 450,079	$ (11,967)	$ 1,295,613	$ (19,701)
Government agency issued MBS	233,521	(2,485)	33,582	(784)	267,103	(3,269)
Total debt securities	1,079,055	(10,219)	483,661	(12,751)	1,562,716	(22,970)
Equity			851	(240)	851	(240)
Total temporarily impaired securities	$ 1,079,055	$ (10,219)	$ 484,512	$ (12,991)	$ 1,563,567	$ (23,210)

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

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Note 4 Loans

The following table provides the balance of loans by portfolio segment as of June 30, 2016 and 2015, and December, 31 2015:

	June 30		December 31
(Dollars in thousands)	**2016**	2015	2015
Commercial:			
Commercial, financial, and industrial	**$ 11,179,445**	$ 9,832,563	$ 10,436,390
Commercial real estate	**1,969,412**	1,400,715	1,674,935
Consumer:			
Consumer real estate (a)	**4,640,779**	4,870,271	4,766,518
Permanent mortgage	**439,014**	487,679	454,123
Credit card & other	**360,687**	345,544	354,536
Loans, net of unearned income	**$ 18,589,337**	$ 16,936,772	$ 17,686,502
Allowance for loan losses	**199,807**	221,351	210,242
Total net loans	**$ 18,389,530**	$ 16,715,421	$ 17,476,260

(a) Balances as of June 30, 2016 and 2015, and December 31, 2015, include $43.5 million, $66.4 million, and $52.8 million of restricted real estate loans, respectively. See Note 13 Variable Interest Entities for additional information.

COMPONENTS OF THE LOAN PORTFOLIO

The loan portfolio is disaggregated into segments and then further disaggregated into classes for certain disclosures. GAAP defines a portfolio segment as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. A class is generally determined based on the initial measurement attribute (i.e., amortized cost or purchased credit-impaired), risk characteristics of the loan, and FHN s method for monitoring and assessing credit risk. Commercial loan portfolio segments include commercial, financial and industrial (C&I) and commercial real estate (CRE). Commercial classes within C&I include general C&I, loans to mortgage companies, the trust preferred loans (TRUPS) (i.e. long-term unsecured loans to bank and insurance related businesses) portfolio and purchased credit-impaired (PCI) loans. Loans to mortgage companies include commercial lines of credit to qualified mortgage companies primarily for the temporary warehousing of eligible mortgage loans prior to the borrower s sale of those mortgage loans to third party investors. Commercial classes within CRE include income CRE, residential CRE and PCI loans. Consumer loan portfolio segments include consumer real estate, permanent mortgage, and the credit card and other portfolio. Consumer classes include HELOC, real estate (R/E) installment and PCI loans within the consumer real estate segment, permanent mortgage (which is both a segment and a class), and credit card and other.

Concentrations

FHN has a concentration of residential real estate loans (27 percent of total loans), the majority of which is in the consumer real estate segment (25 percent of total loans). Loans to finance and insurance companies total $2.3 billion (20 percent of the C&I portfolio, or 12 percent of the total loans). FHN had loans to mortgage companies totaling $2.2

billion (20 percent of the C&I segment, or 12 percent of total loans) as of June 30, 2016. As a result, 40 percent of the C&I segment was sensitive to impacts on the financial services industry.

Acquisition

On October 2, 2015, FHN completed its acquisition of TAF, and its wholly-owned bank subsidiary TAB. The acquisition included $298.1 million in unpaid principal balance of loans with a fair value of $281.9 million. Generally, the fair value for the acquired loans is estimated using a discounted cash flow analysis with significant unobservable inputs (Level 3) including adjustments for expected credit losses, prepayment speeds, current market rates for similar loans, and an adjustment for investor-required yield given product-type and various risk characteristics. See Note 2 Acquisitions and Divestitures for additional information.

At acquisition, FHN designated certain loans as PCI with the remaining loans accounted for under ASC 310-20, Nonrefundable Fees and Other Costs. For loans accounted for under ASC 310-20, the difference between each loan s book value to TAB and the estimated fair value at the time of the acquisition will be accreted into interest income over its remaining contractual life and the subsequent accounting and reporting will be similar to a loan in FHN s originated portfolio.

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Note 4 Loans (Continued)

Purchased Credit-Impaired Loans

The following table presents a rollforward of the accretable yield for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Balance, beginning of period	**$ 8,958**	$ 10,468	**$ 8,542**	$ 14,714
Accretion	**(996)**	(1,576)	**(2,147)**	(4,948)
Adjustment for payoffs	**(2,452)**	(760)	**(4,229)**	(2,096)
Adjustment for charge-offs	**(11)**		**(674)**	
Increase in accretable yield (a)	**705**	216	**4,712**	678
Other	**(33)**		**(33)**	
Balance, end of period	**$ 6,171**	$ 8,348	**$ 6,171**	$ 8,348

(a) Includes changes in the accretable yield due to both transfers from the nonaccretable difference and the impact of changes in the expected timing of the cash flows.

At June 30, 2016, the ALLL related to PCI loans was $.8 million compared to $2.8 million at June 30, 2015. A loan loss provision credit of $.4 million was recognized during the three months ended June 30, 2016, as compared to a loan loss provision credit of $.3 million recognized during the three months ended June 30, 2015. A loan loss provision credit of $.3 million was recognized during the six months ended June 30, 2016, as compared to a loan loss provision credit of $.6 million recognized during the six months ended June 30, 2015.

The following table reflects the outstanding principal balance and carrying amounts of the acquired PCI loans as of June 30, 2016 and 2015, and December 31, 2015:

	June 30, 2016		June 30, 2015		December 31, 2015	
(Dollars in thousands)	**Carrying value**	**Unpaid balance**	Carrying value	Unpaid balance	Carrying value	Unpaid balance
Commercial, financial and industrial	**$ 10,437**	**$ 12,140**	$ 4,870	$ 5,507	$ 16,063	$ 18,573
Commercial real estate	**9,428**	**12,382**	20,262	24,830	19,929	25,504
Consumer real estate	**1,247**	**1,800**	1,927	2,796	3,672	4,533
Credit card and other	**55**	**72**	9	11	52	76
Total	**$ 21,167**	**$ 26,394**	$ 27,068	$ 33,144	$ 39,716	$ 48,686

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Note 4 Loans (Continued)

Impaired Loans

The following tables provide information at June 30, 2016 and 2015, by class related to individually impaired loans and consumer TDRs. Recorded investment is defined as the amount of the investment in a loan, before valuation allowance but which does reflect any direct write-down of the investment. For purposes of this disclosure, PCI loans and net LOCOM have been excluded.

	June 30, 2016			Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:							
Commercial:							
General C&I	$ 14,289	$ 22,141	$	$ 13,333	$	$ 11,278	$
Income CRE	2,468	9,389		2,468		2,468	
Total	$ 16,757	$ 31,530	$	$ 15,801	$	$ 13,746	$
Consumer:							
HELOC (a)	$ 11,186	$ 25,367	$	$ 11,105	$	$ 11,013	$
R/E installment loans (a)	4,232	5,411		4,407		4,420	
Permanent mortgage (a)	4,280	6,657		4,161		4,298	
Total	$ 19,698	$ 37,435	$	$ 19,673	$	$ 19,731	$
Impaired loans with related allowance recorded:							
Commercial:							
General C&I	$ 33,884	$ 35,585	$ 3,151	$ 31,333	$ 292	$ 28,127	$ 379
TRUPS	3,274	3,700	925	3,291		3,307	
Income CRE	4,454	4,796	329	4,780	20	4,959	40
Residential CRE	1,376	1,844	105	1,376	6	1,386	12
Total	$ 42,988	$ 45,925	$ 4,510	$ 40,780	$ 318	$ 37,779	$ 431
Consumer:							
HELOC	$ 88,871	$ 91,771	$ 16,375	$ 88,299	$ 494	$ 88,439	$ 981
R/E installment loans	59,050	60,338	15,536	58,923	345	59,447	662
Permanent mortgage	91,602	104,243	15,583	92,218	541	93,725	1,058

Credit card & other	**356**	**356**	**147**	**351**	**3**	**355**	**6**
Total	**$ 239,879**	**$ 256,708**	**$ 47,641**	**$ 239,791**	**$ 1,383**	**$ 241,966**	**$ 2,707**
Total commercial	**$ 59,745**	**$ 77,455**	**$ 4,510**	**$ 56,581**	**$ 318**	**$ 51,525**	**$ 431**
Total consumer	**$ 259,577**	**$ 294,143**	**$ 47,641**	**$ 259,464**	**$ 1,383**	**$ 261,697**	**$ 2,707**
Total impaired loans	**$ 319,322**	**$ 371,598**	**$ 52,151**	**$ 316,045**	**$ 1,701**	**$ 313,222**	**$ 3,138**

(a) All discharged bankruptcy loans are charged down to an estimate of net realizable value and do not carry any allowance.

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Note 4 Loans (Continued)

	June 30, 2015			Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded:							
Commercial:							
General C&I	$ 12,402	$ 15,690	$	$ 13,016	$	$ 12,305	$
Income CRE	4,187	11,262		4,198		5,283	
Residential CRE						287	
Total	$ 16,589	$ 26,952	$	$ 17,214	$	$ 17,875	$
Consumer:							
HELOC (a)	$ 12,577	$ 30,604	$	$ 12,588	$	$ 12,788	$
R/E installment loans (a)	4,959	6,211		4,739		4,704	
Permanent mortgage (a)	6,403	8,603		6,804		7,018	
Total	$ 23,939	$ 45,418	$	$ 24,131	$	$ 24,510	$
Impaired loans with related allowance recorded:							
Commercial:							
General C&I	$ 30,549	$ 37,741	$ 8,117	$ 28,400	$ 237	$ 24,087	$ 490
TRUPS	13,399	13,700	4,810	13,414		13,429	
Income CRE	6,788	8,298	533	6,742	33	7,140	63
Residential CRE	1,518	1,886	102	1,571	6	1,534	13
Total	$ 52,254	$ 61,625	$ 13,562	$ 50,127	$ 276	$ 46,190	$ 566
Consumer:							
HELOC	$ 87,292	$ 89,454	$ 21,967	$ 86,197	$ 461	$ 85,417	$ 909
R/E installment loans	67,269	68,151	19,439	68,330	331	69,227	658
Permanent mortgage	100,754	113,290	17,857	102,194	637	103,555	1,228
Credit card & other	418	418	155	451	4	479	8
Total	$ 255,733	$ 271,313	$ 59,418	$ 257,172	$ 1,433	$ 258,678	$ 2,803
Total commercial	$ 68,843	$ 88,577	$ 13,562	$ 67,341	$ 276	$ 64,065	$ 566
Total consumer	$ 279,672	$ 316,731	$ 59,418	$ 281,303	$ 1,433	$ 283,188	$ 2,803
Total impaired loans	$ 348,515	$ 405,308	$ 72,980	$ 348,644	$ 1,709	$ 347,253	$ 3,369

(a) All discharged bankruptcy loans are charged down to an estimate of net realizable value and do not carry any allowance.

Asset Quality Indicators

FHN employs a dual grade commercial risk grading methodology to assign an estimate for the probability of default (PD) and the loss given default (LGD) for each commercial loan using factors specific to various industry, portfolio, or product segments that result in a rank ordering of risk and the assignment of grades PD 1 to PD 16. Each PD grade corresponds to an estimated one-year default probability percentage; a PD 1 has the lowest expected default probability, and probabilities increase as grades progress down the scale. PD 1 through PD 12 are pass grades. PD grades 13-16 correspond to the regulatory-defined categories of special mention (13), substandard (14), doubtful (15), and loss (16). Pass loan grades are required to be reassessed annually or earlier whenever there has been a material change in the financial condition of the borrower or risk characteristics of the relationship. All commercial loans over $1 million and certain commercial loans over $500,000 that are graded 13 or worse are reassessed on a quarterly basis. LGD grades are assigned based on a scale of 1-12 and represent FHN s expected recovery based on collateral type in the event a loan defaults. See Note 5 Allowance for Loan Losses for further discussion on the credit grading system.

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Note 4 Loans (Continued)

The following tables provide the balances of commercial loan portfolio classes with associated allowance, disaggregated by PD grade as of June 30, 2016 and 2015:

	June 30, 2016							
(Dollars in thousands)	**General C&I**	**Loans to Mortgage Companies**	**TRUPS (a)**	**Income CRE**	**Residential CRE**	**Total**	**Percentage of Total**	**Allowance for Loan Losses**
PD Grade:								
1	**$ 538,386**	**$**	**$**	**$ 949**	**$**	**$ 539,335**	**4%**	**$ 109**
2	**709,997**			**9,806**	**115**	**719,918**	**5**	**389**
3	**425,912**	**436,545**		**159,880**		**1,022,337**	**8**	**261**
4	**985,360**	**422,844**		**219,102**	**211**	**1,627,517**	**12**	**1,076**
5	**1,094,829**	**248,926**		**259,861**	**589**	**1,604,205**	**12**	**6,203**
6	**1,156,675**	**837,453**		**290,774**	**22,028**	**2,306,930**	**18**	**9,654**
7	**1,399,125**	**172,039**		**437,637**	**8,157**	**2,016,958**	**15**	**14,307**
8	**803,708**	**46,947**		**303,946**	**4,330**	**1,158,931**	**9**	**20,979**
9	**564,474**	**6,661**		**82,351**	**4,625**	**658,111**	**5**	**12,885**
10	**258,486**	**38,285**		**61,260**	**14,011**	**372,042**	**3**	**5,637**
11	**222,391**	**17,390**		**20,364**	**4,838**	**264,983**	**2**	**6,971**
12	**111,980**			**14,530**	**4,363**	**130,873**	**1**	**4,337**
13	**157,028**		**304,527**	**7,437**	**302**	**469,294**	**4**	**5,669**
14,15,16	**157,403**	**81**		**18,369**	**1,471**	**177,324**	**1**	**17,758**
Collectively evaluated for impairment	**8,585,754**	**2,227,171**	**304,527**	**1,886,266**	**65,040**	**13,068,758**	**99**	**106,235**
Individually evaluated for impairment	**48,173**		**3,274**	**6,922**	**1,376**	**59,745**	**1**	**4,510**
Purchased credit-impaired loans	**10,546**			**9,199**	**609**	**20,354**		**491**
Total commercial loans	**$ 8,644,473**	**$ 2,227,171**	**$ 307,801**	**$ 1,902,387**	**$ 67,025**	**$ 13,148,857**	**100%**	**$ 111,236**

	June 30, 2015							
(Dollars in thousands)	General C&I	Loans to Mortgage Companies	TRUPS (a)	Income CRE	Residential CRE	Total	Percentage of Total	Allowance for Loan Losses
PD Grade:								
1	$ 495,855	$	$	$ 554	$	$ 496,409	4%	$ 126
2	590,328			11,602	41	601,971	5	332

3	484,072	317,856		84,178	181	886,287	8	350
4	670,972	366,791		96,689	54	1,134,506	10	868
5	1,135,773	304,500		213,213	5,288	1,658,774	15	6,372
6	1,223,233	618,616		267,983	4,499	2,114,331	20	10,234
7	1,186,480	139,217		365,840	2,844	1,694,381	15	13,203
8	749,504	28,068		163,904	272	941,748	8	13,942
9	419,687	24,617		43,752	383	488,439	4	7,900
10	222,799			27,840	202	250,841	2	5,147
11	179,139			24,010	1,071	204,220	2	5,438
12	76,209			17,884	543	94,636	1	2,704
13	122,862		305,382	3,633	287	432,164	4	4,944
14,15,16	109,820			27,045	2,054	138,919	1	12,829
Collectively evaluated for impairment	7,666,733	1,799,665	305,382	1,348,127	17,719	11,137,626	99	84,389
Individually evaluated for impairment	42,951		12,785	10,975	1,518	68,229	1	13,562
Purchased credit-impaired loans	5,047			20,612	1,764	27,423		2,291
Total commercial loans	$ 7,714,731	$ 1,799,665	$ 318,167	$ 1,379,714	$ 21,001	$ 11,233,278	100%	$ 100,242

(a) Balances as of June 30, 2016 and 2015, presented net of $25.5 million and $26.2 million, respectively, in lower of cost or market (LOCOM) valuation adjustment. Based on the underlying structure of the notes, the highest possible internal grade is 13 .

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Note 4 Loans (Continued)

The consumer portfolio is comprised primarily of smaller-balance loans which are very similar in nature in that most are standard products and are backed by residential real estate. Because of the similarities of consumer loan-types, FHN is able to utilize the Fair Isaac Corporation (FICO) score, among other attributes, to assess the credit quality of consumer borrowers. FICO scores are refreshed on a quarterly basis in an attempt to reflect the recent risk profile of the borrowers. Accruing delinquency amounts are indicators of asset quality within the credit card and other consumer portfolio.

The following table reflects the percentage of balances outstanding by average, refreshed FICO scores for the HELOC, real estate installment, and permanent mortgage classes of loans as of June 30, 2016 and 2015:

		June 30, 2016			June 30, 2015	
	HELOC	**R/E Installment Loans**	**Permanent Mortgage**	HELOC	R/E Installment Loans	Permanent Mortgage
FICO score greater than or equal to 740	**56.3%**	**68.9%**	**43.8%**	54.7%	66.6%	44.2%
FICO score 720-739	**8.6**	**8.8**	**10.9**	9.2	8.5	9.3
FICO score 700-719	**9.0**	**6.8**	**9.3**	9.0	7.4	9.0
FICO score 660-699	**13.0**	**9.0**	**17.6**	13.2	9.6	16.9
FICO score 620-659	**6.2**	**3.7**	**9.6**	6.4	3.9	8.6
FICO score less than 620 (a)	**6.9**	**2.8**	**8.8**	7.5	4.0	12.0
Total	**100.0%**	**100.0%**	**100.0%**	100.0%	100.0%	100.0%

(a) For this group, a majority of the FICO scores at the time of the origination exceeded 620 but have since deteriorated as the loans have seasoned.

Nonaccrual and Past Due Loans

The following table reflects accruing and non-accruing loans by class on June 30, 2016:

		Accruing				**Non-Accruing**			
llars in thousands)	**Current**	**30-89 Days Past Due**	**90+ Days Past Due**	**Total Accruing**	**Current**	**30-89 Days Past Due**	**90+ Days Past Due**	**Total Non-Accruing**	**Total Loans**
mmercial (C&I):									
neral C&I	$ 8,603,288	$ 3,415	$ 75	**$ 8,606,778**	$ 2,868	$ 2,366	$ 21,915	**$ 27,149**	**$ 8,633,9**
	2,226,841	249		**2,227,090**			81	**81**	**2,227,1**

ns to mortgage mpanies									
UPS (a)	304,527			**304,527**			3,274	**3,274**	**307,8**
chased dit-impaired loans	9,651	431	464	**10,546**					**10,54**
al commercial &I)	11,144,307	4,095	539	**11,148,941**	2,868	2,366	25,270	**30,504**	**11,179,44**
mmercial real ate:									
ome CRE	1,885,005	1,186		**1,886,191**	2,186		4,811	**6,997**	**1,893,18**
idential CRE	65,621			**65,621**			795	**795**	**66,41**
chased dit-impaired loans	8,104	311	1,393	**9,808**					**9,80**
al commercial real ate	1,958,730	1,497	1,393	**1,961,620**	2,186		5,606	**7,792**	**1,969,41**
nsumer real ate:									
LOC	1,792,492	18,345	7,927	**1,818,764**	59,310	5,318	9,826	**74,454**	**1,893,21**
installment loans	2,702,710	7,851	2,874	**2,713,435**	26,206	2,661	3,675	**32,542**	**2,745,97**
chased dit-impaired loans	1,336	90	158	**1,584**					**1,58**
al consumer real ate	4,496,538	26,286	10,959	**4,533,783**	85,516	7,979	13,501	**106,996**	**4,640,77**
manent mortgage	398,712	3,719	6,003	**408,434**	12,985	3,518	14,077	**30,580**	**439,01**
edit card & other:									
dit card	189,555	2,116	1,094	**192,765**					**192,76**
er	166,052	838	251	**167,141**			725	**725**	**167,86**
chased dit-impaired loans	56			**56**					[illegible]
al credit card & er	355,663	2,954	1,345	**359,962**			725	**725**	**360,68**
al loans, net of earned income	$ 18,353,950	$ 38,551	$ 20,239	**$ 18,412,740**	$ 103,555	$ 13,863	$ 59,179	**$ 176,597**	**$ 18,589,33**

(a) Total TRUPS includes LOCOM valuation adjustment of $25.5 million.

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Note 4 Loans (Continued)

The following table reflects accruing and non-accruing loans by class on June 30, 2015:

	Accruing				Non-Accruing				
ollars in thousands)	Current	30-89 Days Past Due	90+ Days Past Due	Total Accruing	Current	30-89 Days Past Due	90+ Days Past Due	Total Non-Accruing	Total Loans
mmercial (C&I):									
neral C&I	$ 7,673,986	$ 4,830	$ 199	**$ 7,679,015**	$ 13,781	$ 2,536	$ 14,352	**$ 30,669**	**$ 7,709,68**
ans to mortgage npanies	1,797,877	1,669		**1,799,546**			119	**119**	**1,799,66**
UPS (a)	305,382			**305,382**			12,785	**12,785**	**318,16**
chased dit-impaired loans	4,153	201	693	**5,047**					**5,04**
al commercial &I)	9,781,398	6,700	892	**9,788,990**	13,781	2,536	27,256	**43,573**	**9,832,56**
mmercial real ate:									
ome CRE	1,344,440	2,916		**1,347,356**	1,285	2,041	8,420	**11,746**	**1,359,10**
sidential CRE	19,114	123		**19,237**					**19,23**
chased dit-impaired loans	22,238		138	**22,376**					**22,37**
al commercial real ate	1,385,792	3,039	138	**1,388,969**	1,285	2,041	8,420	**11,746**	**1,400,71**
nsumer real ate:									
LOC	2,150,344	22,240	9,785	**2,182,369**	65,345	5,243	9,543	**80,131**	**2,262,50**
E installment loans	2,557,513	9,172	4,272	**2,570,957**	27,294	1,873	5,227	**34,394**	**2,605,35**
chased dit-impaired loans	2,012	4	404	**2,420**					**2,42**
al consumer real ate	4,709,869	31,416	14,461	**4,755,746**	92,639	7,116	14,770	**114,525**	**4,870,27**
rmanent mortgage	444,187	5,450	5,569	**455,206**	15,495	1,981	14,997	**32,473**	**487,67**
edit card & other:									
dit card	182,477	1,446	1,284	**185,207**					**185,20**

her	158,530	873	177	**159,580**			749	**749**	**160,32**
chased dit-impaired loans	8			**8**					
al credit card & er	341,015	2,319	1,461	**344,795**			749	**749**	**345,54**
tal loans, net of earned income	$ 16,662,261	$ 48,924	$ 22,521	**$ 16,733,706**	$ 123,200	$ 13,674	$ 66,192	**$ 203,066**	**$ 16,936,77**

(a) Total TRUPS includes LOCOM valuation adjustment of $26.2 million.

Troubled Debt Restructurings

As part of FHN s ongoing risk management practices, FHN attempts to work with borrowers when necessary to extend or modify loan terms to better align with their current ability to repay. Extensions and modifications to loans are made in accordance with internal policies and guidelines which conform to regulatory guidance. Each occurrence is unique to the borrower and is evaluated separately.

A modification is classified as a TDR if the borrower is experiencing financial difficulty and it is determined that FHN has granted a concession to the borrower. FHN may determine that a borrower is experiencing financial difficulty if the borrower is currently in default on any of its debt, or if it is probable that a borrower may default in the foreseeable future. Many aspects of a borrower s financial situation are assessed when determining whether they are experiencing financial difficulty. Concessions could include extension of the maturity date, reductions of the interest rate (which may make the rate lower than current market for a new loan with similar risk), reduction or forgiveness of accrued interest, or principal forgiveness. The assessments of whether a borrower is experiencing (or is likely to experience) financial difficulty, and whether a concession has been granted, are subjective in nature and management s judgment is required when determining whether a modification is classified as a TDR.

For all classes within the commercial portfolio segment, TDRs are typically modified through forbearance agreements (generally 6 to 12 months). Forbearance agreements could include reduced interest rates, reduced payments, release of guarantor, or entering into short sale agreements. FHN s proprietary modification programs for consumer loans are generally structured using parameters of U.S. government-sponsored programs such as Home Affordable Modification Program (HAMP). Within the HELOC and R/E installment loans classes of the consumer portfolio segment, TDRs are typically modified by reducing the interest rate (in increments of 25 basis points to a minimum of 1 percent for up to 5 years) and a possible maturity date extension to reach an affordable housing debt ratio. After 5 years, the interest rate will increase 2 percent per year until the original interest rate prior to modification is achieved. Permanent mortgage TDRs are typically modified by reducing the interest rate (in increments of 25 basis points to a minimum of 2 percent for up to 5 years) and a possible maturity date extension to reach an affordable housing debt ratio. After 5 years the interest rate steps up 1 percent every year until it reaches the Federal Home Loan Mortgage Corporation Weekly Survey Rate cap. Contractual maturities may be extended to 40 years on permanent mortgages and to 30 years for consumer real estate loans. Within the

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Note 4 Loans (Continued)

credit card class of the consumer portfolio segment, TDRs are typically modified through either a short-term credit card hardship program or a longer-term credit card workout program. In the credit card hardship program, borrowers may be granted rate and payment reductions for 6 months to 1 year. In the credit card workout program, customers are granted a rate reduction to 0 percent and term extensions for up to 5 years to pay off the remaining balance.

Despite the absence of a loan modification, the discharge of personal liability through bankruptcy proceedings is considered a concession. As a result, FHN classifies all non-reaffirmed residential real estate loans discharged in Chapter 7 bankruptcy as nonaccruing TDRs.

On June 30, 2016 and 2015, FHN had $299.3 million and $310.6 million portfolio loans classified as TDRs, respectively. For TDRs in the loan portfolio, FHN had loan loss reserves of $51.2 million and $61.0 million, or 17 percent as of June 30, 2016, and 20 percent as of June 30, 2015. Additionally, $73.8 million and $80.8 million of loans held-for-sale as of June 30, 2016 and 2015, respectively, were classified as TDRs.

The following tables reflect portfolio loans that were classified as TDRs during the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016			Six Months Ended June 30, 2016		
(Dollars in thousands)	**Number**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Number**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Commercial (C&I):						
General C&I	**4**	**$ 19,175**	**$ 18,067**	**5**	**$ 19,883**	**$ 18,775**
Total commercial (C&I)	**4**	**19,175**	**18,067**	**5**	**19,883**	**18,775**
Consumer real estate:						
HELOC	**53**	**5,258**	**5,246**	**152**	**12,698**	**12,616**
R/E installment loans	**19**	**3,326**	**3,614**	**34**	**4,224**	**4,509**
Total consumer real estate	**72**	**8,584**	**8,860**	**186**	**16,922**	**17,125**
Permanent mortgage	**4**	**841**	**840**	**4**	**841**	**840**
Credit card & other	**1**	**2**	**2**	**5**	**21**	**20**
Total troubled debt restructurings	**81**	**$ 28,602**	**$ 27,769**	**200**	**$ 37,667**	**$ 36,760**

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
(Dollars in thousands)	Number			Number		

		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial (C&I):						
General C&I		$	$	2	$ 1,388	$ 1,325
Total commercial (C&I)				2	1,388	1,325
Consumer real estate:						
HELOC	65	7,237	7,147	102	10,964	10,854
R/E installment loans	22	1,912	1,916	38	3,266	3,293
Total consumer real estate	87	9,149	9,063	140	14,230	14,147
Permanent mortgage	4	1,718	1,733	6	2,039	2,054
Credit card & other	6	20	19	12	48	46
Total troubled debt restructurings	97	$ 10,887	$ 10,815	160	$ 17,705	$ 17,572

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Note 4 Loans (Continued)

The following tables present TDRs which re-defaulted during the three and six months ended June 30, 2016 and 2015, and as to which the modification occurred 12 months or less prior to the re-default. For purposes of this disclosure, FHN generally defines payment default as 30 or more days past due.

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
(Dollars in thousands)	**Number**	**Recorded Investment**	**Number**	**Recorded Investment**
Commercial real estate:				
Residential CRE		$		$
Total commercial real estate				
Consumer real estate:				
HELOC	**1**	**102**	**2**	**138**
R/E installment loans	**1**	**180**	**1**	**180**
Total consumer real estate	2	282	3	318
Credit card & other				
Total troubled debt restructurings	**2**	**$ 282**	**3**	**$ 318**

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
(Dollars in thousands)	Number	Recorded Investment	Number	Recorded Investment
Commercial real estate:				
Residential CRE	1	$ 896	1	$ 896
Total commercial real estate	1	896	1	896
Consumer real estate:				
HELOC	6	278	7	308
R/E installment loans	1	26	2	112
Total consumer real estate	7	304	9	420

Credit card & other	2		5	3		8
Total troubled debt restructurings	10	$	1,205	13	$	1,324

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Note 5 Allowance for Loan Losses

The ALLL includes the following components: reserves for commercial loans evaluated based on pools of credit graded loans and reserves for pools of smaller-balance homogeneous consumer loans, both determined in accordance with ASC 450-20-50. The reserve factors applied to these pools are an estimate of probable incurred losses based on management s evaluation of historical net losses from loans with similar characteristics and are subject to qualitative adjustments by management to reflect current events, trends, and conditions (including economic considerations and trends). The pace of the economic recovery, performance of the housing market, unemployment levels, labor participation rate, regulatory guidance, and both positive and negative portfolio segment-specific trends, are examples of additional factors considered by management in determining the ALLL. Additionally, management considers the inherent uncertainty of quantitative models that are driven by historical loss data. Management evaluates the periods of historical losses that are the basis for the loss rates used in the quantitative models and selects historical loss periods that are believed to be the most reflective of losses inherent in the loan portfolio as of the balance sheet date. Management also periodically reviews analysis of the loss emergence period which is the amount of time it takes for a loss to be confirmed (initial charge-off) after a loss event has occurred. FHN performs extensive studies as it relates to the historical loss periods used in the model and the loss emergence period and model assumptions are adjusted accordingly. The ALLL also includes reserves determined in accordance with ASC 310-10-35 for loans determined by management to be individually impaired and an allowance associated with PCI loans. See Note 1 Summary of Significant Accounting Policies and Note 5 Allowance for Loan Losses in the Notes to Consolidated Financial Statements on Form 10-K for the year ended December 31, 2015, for additional information about the policies and methodologies used in the aforementioned components of the ALLL.

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Note 5 Allowance for Loan Losses (Continued)

The following table provides a rollforward of the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2016 and 2015:

(Dollars in thousands)	C&I	Commercial Real Estate	Consumer Real Estate	Permanent Mortgage	Credit Card and Other	Total
Balance as of April 1, 2015	$ 67,652	$ 17,665	$ 109,245	$ 20,186	$ 13,580	$ 228,328
Charge-offs	(4,976)	(888)	(6,903)	(809)	(5,858)	(19,434)
Recoveries	926	153	7,851	671	856	10,457
Provision/(provision credit) for loan losses	15,148	4,562	(24,736)	2,329	4,697	2,000
Balance as of June 30, 2015	78,750	21,492	85,457	22,377	13,275	221,351
Balance as of January 1, 2015	$ 67,011	$ 18,574	$ 113,011	$ 19,122	$ 14,730	$ 232,448
Charge-offs	(8,531)	(1,675)	(15,440)	(1,993)	(9,794)	(37,433)
Recoveries	2,879	844	12,575	1,289	1,749	19,336
Provision/(provision credit) for loan losses	17,391	3,749	(24,689)	3,959	6,590	7,000
Balance as of June 30, 2015	78,750	21,492	85,457	22,377	13,275	221,351
Allowance individually evaluated for impairment	12,927	635	41,406	17,857	155	72,980
Allowance collectively evaluated for impairment	65,646	18,743	43,558	4,520	13,120	145,587
Allowance purchased credit-impaired loans	177	2,114	493			2,784
Loans, net of unearned as of June 30, 2015:						
Individually evaluated for impairment	55,736	12,493	172,097	107,157	418	347,901
Collectively evaluated for impairment	9,771,780	1,365,846	4,695,754	380,522	345,118	16,559,020
Purchased credit-impaired loans	5,047	22,376	2,420		8	29,851
Total loans, net of unearned income	$ 9,832,563	$ 1,400,715	$ 4,870,271	$ 487,679	$ 345,544	$ 16,936,772

Balance as of April 1, 2016	**$ 80,887**	**$ 25,626**	**$ 67,321**	**$ 18,754**	**$ 11,446**	**$ 204,034**
Charge-offs	**(7,869)**	**(51)**	**(6,582)**	**(349)**	**(3,445)**	**(18,296)**
Recoveries	**1,602**	**909**	**6,082**	**484**	**992**	**10,069**
Provision/(provision credit) for loan losses	**6,352**	**3,780**	**(7,740)**	**(1,289)**	**2,897**	**4,000**
Balance as of June 30, 2016	**80,972**	**30,264**	**59,081**	**17,600**	**11,890**	**199,807**
Balance as of January 1, 2016	**$ 73,637**	**$ 25,159**	**$ 80,614**	**$ 18,947**	**$ 11,885**	**$ 210,242**
Charge-offs	**(14,394)**	**(693)**	**(13,508)**	**(461)**	**(6,852)**	**(35,908)**
Recoveries	**2,382**	**1,131**	**11,817**	**1,263**	**1,880**	**18,473**
Provision/(provision credit) for loan losses	**19,347**	**4,667**	**(19,842)**	**(2,149)**	**4,977**	**7,000**
Balance as of June 30, 2016	**80,972**	**30,264**	**59,081**	**17,600**	**11,890**	**199,807**
Allowance individually evaluated for impairment	**4,076**	**434**	**31,911**	**15,583**	**147**	**52,151**
Allowance collectively evaluated for impairment	**76,786**	**29,449**	**26,834**	**2,017**	**11,743**	**146,829**
Allowance purchased credit-impaired loans	**110**	**381**	**336**			**827**
Loans, net of unearned as of June 30, 2016:						
Individually evaluated for impairment	**51,447**	**8,298**	**163,339**	**95,882**	**356**	**319,322**
Collectively evaluated for impairment	**11,117,452**	**1,951,306**	**4,475,856**	**343,132**	**360,275**	**18,248,021**
Purchased credit-impaired loans	**10,546**	**9,808**	**1,584**		**56**	**21,994**
Total loans, net of unearned income	**$ 11,179,445**	**$ 1,969,412**	**$ 4,640,779**	**$ 439,014**	**$ 360,687**	**$ 18,589,337**

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Note 6 Intangible Assets

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

(Dollars in thousands)	Goodwill	Other Intangible Assets (a)
December 31, 2014	$ 145,932	$ 29,518
Amortization expense		(2,596)
June 30, 2015	$ 145,932	$ 26,922
December 31, 2015 (b)	$ 191,307	$ 26,215
Amortization expense		(2,599)
June 30, 2016	**$ 191,307**	**$ 23,616**

(a) Represents customer lists, acquired contracts, core deposit intangibles, and covenants not to compete.
(b) The increase in goodwill was related to the TAF acquisition in fourth quarter 2015.

The gross carrying amount and accumulated amortization of other intangible assets subject to amortization is $72.3 million and $48.7 million, respectively on June 30, 2016. Estimated aggregate amortization expense is expected to be $2.6 million for the remainder of 2016, and $4.9 million, $4.7 million, $4.5 million, $1.7 million, and $1.6 million for the twelve-month periods of 2017, 2018, 2019, 2020, and 2021, respectively.

Gross goodwill, accumulated impairments, and accumulated divestiture related write-offs were determined beginning January 1, 2012, when a change in accounting requirements resulted in goodwill being assessed for impairment rather than being amortized. Gross goodwill of $200.0 million with accumulated impairments and accumulated divestiture related write-offs of $114.1 million and $85.9 million, respectively, were previously allocated to the non-strategic segment, resulting in $0 net goodwill allocated to the non-strategic segment as of June 30, 2015 and 2016. The regional bank and fixed income segments do not have any accumulated impairments or divestiture related write-offs. The following is a summary of goodwill by reportable segment included in the Consolidated Condensed Statements of Condition as of and for the six months ended June 30, 2015 and 2016.

(Dollars in thousands)	Regional Banking	Fixed Income	Total
December 31, 2014	$ 47,928	$ 98,004	$ 145,932
Additions			
Impairments			
Divestitures			

June 30, 2015	$ 47,928	$ 98,004	$ 145,932
December 31, 2015 (a)	$ 93,303	$ 98,004	$ 191,307
Additions			
Impairments			
Divestitures			
June 30, 2016	**$ 93,303**	**$ 98,004**	**$ 191,307**

(a) The increase in goodwill was related to the TAF acquisition in fourth quarter 2015.

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Note 7 Other Income and Other Expense

Following is detail of All other income and commissions and All other expense as presented in the Consolidated Condensed Statements of Income:

(Dollars in thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	**2016**	2015
All other income and commissions:				
ATM interchange fees	**$ 2,879**	$ 3,025	**$ 5,837**	$ 5,786
Electronic banking fees	**1,381**	1,459	**2,778**	2,887
Letter of credit fees	**1,115**	1,532	**2,176**	2,655
Deferred compensation (a)	**795**	(35)	**1,124**	998
Mortgage banking	**598**	376	**1,871**	1,960
Other	**2,005**	6,421	**5,076**	9,546
Total	**$ 8,773**	$ 12,778	**$ 18,862**	$ 23,832
All other expense:				
Litigation and regulatory matters	**$ 26,000**	$	**$ 25,525**	$ 162,500
Travel and entertainment	**2,495**	2,632	**4,557**	4,246
Customer relations	**1,483**	1,505	**3,362**	2,819
Employee training and dues	**1,338**	1,449	**2,728**	2,581
Supplies	**930**	880	**1,956**	1,807
Tax credit investments	**831**	549	**1,537**	944
Miscellaneous loan costs	**565**	734	**1,282**	1,095
Other	**10,624**	9,307	**22,343**	17,730
Total	**$ 44,266**	$ 17,056	**$ 63,290**	$ 193,722

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

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

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Note 8 Components of Other Comprehensive Income/(loss)

The following table provides the changes in accumulated other comprehensive income/(loss) by component, net of tax, for the three and six months ended June 30, 2016 and 2015:

(Dollars in thousands)	**Securities AFS**	**Cash Flow Hedges**	**Pension and Post-retirement Plans**	**Total**
Balance as of April 1, 2016	$ 42,554	$ 3,465	$ (216,460)	$ (170,441)
Net unrealized gains/(losses)	16,037	1,600		17,637
Amounts reclassified from AOCI		(374)	844	470
Other comprehensive income/(loss)	16,037	1,226	844	18,107
Balance as of June 30, 2016	**$ 58,591**	**$ 4,691**	**$ (215,616)**	**$ (152,334)**
Balance as of January 1, 2016	$ 3,394	$	$ (217,586)	$ (214,192)
Net unrealized gains/(losses)	56,217	5,439		61,656
Amounts reclassified from AOCI	(1,020)	(748)	1,970	202
Other comprehensive income/(loss)	55,197	4,691	1,970	61,858
Balance as of June 30, 2016	**$ 58,591**	**$ 4,691**	**$ (215,616)**	**$ (152,334)**

(Dollars in thousands)				
Balance as of April 1, 2015	$ 36,585	$	$ (205,744)	$ (169,159)
Net unrealized gains/(losses)	(20,100)			(20,100)
Amounts reclassified from AOCI			1,011	1,011
Other comprehensive income/(loss)	(20,100)		1,011	(19,089)
Balance as of June 30, 2015	$ 16,485	$	$ (204,733)	$ (188,248)
Balance as of January 1, 2015	$ 18,581	$	$ (206,827)	$ (188,246)
Net unrealized gains/(losses)	(2,096)			(2,096)
Amounts reclassified from AOCI			2,094	2,094
Other comprehensive income/(loss)	(2,096)		2,094	(2)
Balance as of June 30, 2015	$ 16,485	$	$ (204,733)	$ (188,248)

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Note 8 Components of Other Comprehensive Income/(loss) (Continued)

Reclassifications from AOCI, and related tax effects, were as follows:

(Dollars in thousands)	Three Months Ended June 30		Six Months Ended June 30		
Details about AOCI	**2016**	2015	**2016**	2015	Affected line item in the statement where net income is presented
Securities AFS:					
Realized (gains)/losses on securities AFS	**$**	$	**$ (1,654)**	$	Debt securities gains/(losses), net
Tax expense/(benefit)			**634**		Provision/(benefit) for income taxes
			(1,020)		
Cash flow hedges:					
Realized (gains)/losses on cash flow hedges	**(607)**		**(1,213)**		Interest and fees on loans
Tax expense/(benefit)	**233**		**465**		Provision/(benefit) for income taxes
	(374)		**(748)**		
Pension and Postretirement Plans:					
Amortization of prior service cost, transition asset/obligation, and net actuarial gain/(loss)	**1,369**	1,647	**3,195**	3,412	Employee compensation, incentives, and benefits
Tax expense/(benefit)	**(525)**	(636)	**(1,225)**	(1,318)	Provision/(benefit) for income taxes
	844	1,011	**1,970**	2,094	
Total reclassification from AOCI	**$ 470**	$ 1,011	**$ 202**	$ 2,094	

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Note 9 Earnings Per Share

The following table provides reconciliations of net income to net income available to common shareholders and the difference between average basic common shares outstanding and average diluted common shares outstanding:

(Dollars and shares in thousands, except per share data)	Three Months Ended June 30 **2016**	Three Months Ended June 30 2015	Six Months Ended June 30 **2016**	Six Months Ended June 30 2015
Net income/(loss)	**$ 60,940**	$ 54,957	**$ 113,153**	$ (17,448)
Net income attributable to noncontrolling interest	**2,852**	2,851	**5,703**	5,609
Net income/(loss) attributable to controlling interest	**58,088**	52,106	**107,450**	(23,057)
Preferred stock dividends	**1,550**	1,550	**3,100**	3,100
Net income/(loss) available to common shareholders	**$ 56,538**	$ 50,556	**$ 104,350**	$ (26,157)
Weighted average common shares outstanding basic	**231,573**	232,800	**233,112**	232,808
Effect of dilutive securities (a)	**2,003**	1,869	**2,009**	
Weighted average common shares outstanding diluted	**233,576**	234,669	**235,121**	232,808
Net income/(loss) per share available to common shareholders	**$ 0.24**	$ 0.22	**$ 0.45**	$ (0.11)
Diluted income/(loss) per share available to common shareholders	**$ 0.24**	$ 0.22	**$ 0.44**	$ (0.11)

(a) For the six months ended June 30, 2015 all potential common shares were antidilutive due to the net loss available to common shareholders.

The following table presents outstanding options and other equity awards that were excluded from the calculation of diluted earnings per share because they were either anti-dilutive (the exercise price was higher than the weighted-average market price for the period) or the performance conditions have not been met:

(Shares in thousands)	Three Months Ended June 30 **2016**	Three Months Ended June 30 2015	Six Months Ended June 30 **2016**	Six Months Ended June 30 2015 (a)
Anti-dilutive stock options	**3,842**	3,597	**3,804**	7,763
Weighted average exercise price of anti-dilutive stock options	**$ 22.68**	$ 24.26	**$ 23.06**	$ 17.17
Anti-dilutive other equity awards	**959**	51	**867**	2,167

(a)

For the six months ended June 30, 2015 all potential common shares were antidilutive due to the net loss available to common shareholders.

Note 10 Contingencies and Other Disclosures

CONTINGENCIES

Contingent Liabilities Overview

Contingent liabilities arise in the ordinary course of business. Often they are related to lawsuits, arbitration, mediation, and other forms of litigation. Various litigation matters are threatened or pending against FHN and its subsidiaries. Also, FHN at times receives requests for information, subpoenas, or other inquiries from federal, state, and local regulators, from other government authorities, and from other parties concerning various matters relating to FHN s current or former lines of business. Certain matters of that sort are pending at this time, and FHN is cooperating in those matters. Pending and threatened litigation matters sometimes are resolved in court or before an arbitrator, and sometimes are settled by the parties. Regardless of the manner of resolution, frequently the most significant changes in status of a matter occur over a short time period, often following a lengthy period of little substantive activity. In view of the inherent difficulty of predicting the outcome of these matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories or involve a large number of parties, or where claims or other actions may be possible but have not been brought, FHN cannot reasonably determine what the eventual outcome of the matters will be, what the timing of the ultimate resolution of these matters may be, or what the eventual loss or impact related to each matter may be. FHN establishes loss contingency liabilities for litigation matters when loss is both probable and reasonably estimable as prescribed by applicable financial accounting guidance. If loss for a matter is probable and a range of possible loss outcomes is the best estimate available, accounting guidance requires a liability to be established at the low end of the range.

Based on current knowledge, and after consultation with counsel, management is of the opinion that loss contingencies related to threatened or pending litigation matters should not have a material adverse effect on the consolidated financial condition of FHN, but may be material to FHN s operating results for any particular reporting period depending, in part, on the results from that period.

Material Loss Contingency Matters

As used in this Note, material loss contingency matters generally fall into at least one of the following categories: (i) FHN has determined material loss to be probable and has established a material loss liability in accordance with applicable financial accounting guidance, other than matters reported as having been substantially settled or otherwise substantially resolved; (ii) FHN has determined material loss to be probable but is not reasonably able to estimate an amount or range of material loss liability; or (iii) FHN has determined that material loss is not probable but is reasonably possible, and that the amount or range of that reasonably possible material loss is estimable. As defined in applicable accounting guidance, loss is reasonably possible if there is more than a remote chance of a material loss outcome for FHN. Set forth below are disclosures for certain pending or threatened litigation matters, including all matters mentioned in (i) or (ii) and certain matters mentioned in (iii). In addition, certain other matters are discussed relating to FHN s former mortgage origination and servicing businesses. In all litigation matters discussed, unless settled or otherwise resolved, FHN believes it has meritorious defenses and intends to pursue those defenses vigorously.

FHN reassesses the liability for litigation matters each quarter as the matters progress. At June 30, 2016, the aggregate amount of liabilities established for all loss contingency matters was $40.4 million. These liabilities are separate from those discussed under the heading Repurchase and Foreclosure Liability below.

In each material loss contingency matter, except as otherwise noted, there is more than a remote chance that any of the following outcomes will occur: the plaintiff will substantially prevail; the defense will substantially prevail; the plaintiff will prevail in part; or the matter will be settled by the parties. At June 30, 2016, FHN estimates that for all material loss contingency matters, estimable reasonably possible losses in future periods in excess of currently established liabilities could aggregate in a range from zero to approximately $73 million.

As a result of the general uncertainties discussed above and the specific uncertainties discussed for each matter mentioned below, it is possible that the ultimate future loss experienced by FHN for any particular matter may materially exceed the amount, if any, of currently established liability for that matter. That possibility exists both for matters included in the estimated reasonably possible loss (RPL) range mentioned above and for matters not included in that range.

Certain Matters Included in RPL Range

Debit Transaction Sequencing Litigation Matter. FTBNA is a defendant in a putative class action lawsuit concerning overdraft fees charged in connection with debit card transactions. A key claim is that the method used to order or sequence the transactions posted each day was improper. The case is styled as *Hawkins v. First Tennessee Bank National Association*, before the Circuit Court for Shelby County, Tennessee, Case No. CT-004085-11. The plaintiff seeks actual damages of at least $5 million, unspecified restitution of fees charged, and unspecified punitive damages, among other things. In July 2016 FHN and the plaintiff submitted a notice of

Note 10 Contingencies and Other Disclosures (Continued)

proposed settlement to the court. That proposed settlement is subject to negotiation of a definitive settlement agreement and a court approval process involving several steps and significant remaining uncertainty. FHN s estimate of RPL for this matter is subject to significant uncertainties regarding: whether the class contemplated by the proposed settlement will be certified by the court; whether outside parties will object or intervene in the approval process; and whether the court will determine the settlement to be fair.

RPL-Included FH Proprietary Securitization Matters. FHN, along with multiple co-defendants, is defending lawsuits brought by investors which claim that the offering documents under which certificates relating to First Horizon branded securitizations were sold to them were materially deficient. FHN can estimate reasonably possible loss for two of those matters: (1) Federal Deposit Insurance Corporation (FDIC) as receiver for Colonial Bank, in the U.S. District Court for the Middle District of Alabama (Case No. CV-12-791-WKW-WC); and (2) FDIC as receiver for Colonial Bank, in the U.S. District Court for the Southern District of New York (Case No. 12 Civ. 6166 (LLS)(MHD)). The plaintiff in those suits claims to have purchased (and later sold) certificates in a number of separate securitizations and demands damages and prejudgment interest, among several remedies sought. The RPL estimates for these matters are subject to significant uncertainties regarding: the dollar amounts claimed; the potential remedies that might be available or awarded; the outcome of any settlement discussions; the ultimate outcome of potentially significant motions; the availability of significantly dispositive defenses; and the incomplete status of the discovery process. FDIC s claims relate to alleged purchases totaling $145.7 million. Additional information concerning FHN s former mortgage businesses is provided below in Obligations from Legacy Mortgage Businesses.

Legacy Mortgage Matters Excluded from RPL Range

As mentioned above, FHN is directly defending two lawsuits which claim that the offering documents under which certificates relating to securitizations were sold were materially deficient. Underwriters are co-defendants and have demanded, under provisions in the applicable underwriting agreements, that FHN indemnify them for their expenses and any losses they may incur. In addition, FHN has received indemnity demands from underwriters in certain other suits as to which investors claim to have purchased certificates in FH proprietary securitizations but as to which FHN has not been named a defendant.

For the two pending lawsuits FHN is able to estimate RPL, as mentioned above. For the indemnity claims FHN is unable to estimate an RPL range due to significant uncertainties regarding: claims as to which the claimant specifies no dollar amount; the potential remedies that might be available or awarded; the availability of significantly dispositive defenses such as statutes of limitations or repose; the outcome of potentially dispositive early-stage motions such as motions to dismiss; the incomplete status of the discovery process; the lack of a precise statement of damages; and lack of precedent claims. The alleged purchase prices of the certificates subject to the indemnification requests total $510.1 million.

FHN has additional potential exposures related to its former mortgage businesses. A few of those matters have become litigation which FHN currently estimates are immaterial, some are non-litigation claims or threats, some are mere requests for information, and in some areas FHN has no indication of any active or threatened dispute. Some of those matters might eventually result in loan repurchases or make-whole payments and could be included in the repurchase liability discussed below, but none are included in the material loss contingency liability mentioned above. None are included in the RPL range mentioned above. Additional information concerning such exposures is provided below in Obligations from Legacy Mortgage Businesses.

Material Gain Contingency Matter

In second quarter 2015 FHN reached an agreement with DOJ and HUD to settle potential claims related to FHN s underwriting and origination of loans insured by FHA. Under that agreement FHN paid $212.5 million. FHN believes that certain insurance policies, having an aggregate policy limit of $75 million, provide coverage for FHN s losses and related costs. The insurers have denied and/or reserved rights to deny coverage. FHN has brought suit against the insurers to enforce the policies under Tennessee law. In connection with this litigation the previously recognized expenses associated with the settled matter may be recouped in part. Under applicable financial accounting guidance FHN has determined that although material gain from this litigation is not probable, there is a reasonably possible (more than remote) chance of a material gain outcome for FHN. FHN cannot determine a probable outcome that may result from this matter because of the uncertainty of the potential outcomes of the legal proceedings and also due to significant uncertainties regarding: legal interpretation of the relevant contracts; potential remedies that might be available or awarded; the ultimate effect of counterclaims asserted by the defendants; and incomplete discovery. Additional information concerning FHN s former mortgage businesses is provided below in Obligations from Legacy Mortgage Businesses.

Obligations from Legacy Mortgage Businesses

Several matters mentioned above stem from FHN s former mortgage origination and servicing businesses. FHN retains potential for further exposure, in addition to those matters, from those former businesses. The remainder of this Contingencies section provides context and other information to enhance an understanding of those matters and exposures.

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Note 10 Contingencies and Other Disclosures (Continued)

Overview

Prior to September 2008 FHN originated loans through its legacy mortgage business, primarily first lien home loans, with the intention of selling them. Sales typically were effected either as non-recourse whole-loan sales or through non-recourse proprietary securitizations. Conventional conforming single-family residential mortgage loans were sold predominately to two GSEs: Fannie Mae and Freddie Mac. Also, federally insured or guaranteed whole loans were pooled, and payments to investors were guaranteed through Ginnie Mae. Many mortgage loan originations, especially nonconforming mortgage loans, were sold to investors, or certificate-holders, predominantly through FH proprietary securitizations but also, to a lesser extent, through other whole loans sold to private non-Agency purchasers. FHN used only one trustee for all of its FH proprietary securitizations. FHN also originated mortgage loans eligible for FHA insurance or VA guaranty. In addition, FHN originated and sold HELOCs and second lien mortgages through other whole loans sold to private purchasers and, to a lesser extent, through FH proprietary securitizations. Currently, only one FH securitization of HELOCs remains outstanding.

For non-recourse loan sales, FHN has exposure for repurchase of loans, make-whole damages, or other related damages, arising from claims that FHN breached its representations and warranties made at closing to the purchasers, including GSEs, other whole loan purchasers, and the trustee of FH proprietary securitizations.

During the time these legacy activities were conducted, FHN frequently sold mortgage loans with servicing retained. As a result, FHN accumulated substantial amounts of MSR on its balance sheet, as well as contractual servicing obligations and related deposits and receivables. FHN conducted a significant servicing business under its First Horizon Home Loans brand.

MI was required by GSE rules for certain of the loans sold to GSEs and was also provided for certain of the loans that were securitized. MI generally was provided for first lien loans sold or securitized having an LTV ratio at origination of greater than 80 percent.

In 2007, market conditions deteriorated to the point where mortgage-backed securitizations no longer could be sold economically; FHN s last securitization occurred that year. FHN continued selling mortgage loans to GSEs until August 31, 2008, when FHN sold its national mortgage origination and servicing platforms along with a portion of its servicing assets and obligations. FHN contracted to have its remaining servicing obligations sub-serviced. Since the platform sale FHN has sold substantially all remaining servicing assets and obligations.

Certain mortgage-related terms used in this Contingencies section are defined in Mortgage-Related Glossary at the end of this Overview.

Repurchase and Make-Whole Obligations

Starting in 2009, FHN received a high number of claims either to repurchase loans from the purchaser or to pay the purchaser to make them whole for economic losses incurred. These claims have been driven primarily by loan delinquencies. In repurchase or make-whole claims a loan purchaser typically asserts that specified loans violated representations and warranties FHN made when the loans were sold. A significant majority of claims received overall have come from GSEs, and the remainder are from purchasers of other whole loan sales. FHN has not received a loan repurchase or make-whole claim from the FH proprietary securitization trustee.

Generally, FHN reviews each claim and MI cancellation notice individually. Those responses include appeal, provide additional information, deny the claim (rescission), repurchase the loan or remit a make-whole payment, or reflect cancellation of MI.

After several years resolving repurchase and make-whole claims with each GSE on a loan-by-loan basis, in 2013 and 2014 FHN entered into DRAs with the GSEs, resolving at once a large fraction of pending and potential future claims. Starting in 2014, the overall number of such claims diminished substantially, primarily as a result of the DRAs. Each DRA resolved obligations associated with loans originated from 2000 to 2008, but certain obligations and loans were excluded. Under each DRA, FHN remains responsible for repurchase obligations related to certain excluded defects (such as title defects and violations of the GSE s Charter Act) and FHN continues to have loan repurchase or monetary compensation obligations under the DRAs related to private mortgage insurance rescissions, cancellations, and denials (with certain exceptions). FHN also has exposure related to loans where there has been a prior bulk sale of servicing, as well as certain other whole-loan sales. With respect to loans where there has been a prior bulk sale of servicing, FHN is not responsible for MI cancellations and denials to the extent attributable to the acts of the current servicer.

While large portions of repurchase claims from the GSEs were settled with the DRAs, large-scale settlement with non-Agency claimants is not practical. Those claims are resolved case by case or, occasionally, with less-comprehensive settlements. In second quarter 2016, in the largest such settlement to date, FHN settled certain repurchase claims which reduced the repurchase and foreclosure liability to $68.1 million at June 30, 2016 and resulted in a reversal of certain prior provision expense. Repurchase claims that are not resolved by the parties could become litigation.

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Note 10 Contingencies and Other Disclosures (Continued)

FH Proprietary Securitization Actions

FHN has potential financial exposure from FH proprietary securitizations outside of the repurchase/make-whole process. Several investors in certificates sued FHN and others starting in 2009, and several underwriters or other counterparties have demanded that FHN indemnify and defend them in securitization lawsuits. The pending suits generally assert that disclosures made to investors in the offering and sale of certificates were legally deficient.

Servicing Obligations

FHN s national servicing business was sold as part of the platform sale in 2008. A significant amount of MSR was sold at that time, and a significant amount was retained. The related servicing activities, including foreclosure and loss mitigation practices, not sold in 2008 were outsourced through a three-year subservicing arrangement (the 2008 subservicing agreement) with the platform buyer (the 2008 subservicer). The 2008 subservicing agreement expired in 2011 when FHN entered into a replacement agreement with a new subservicer (the 2011 subservicer). In fourth quarter 2013, FHN contracted to sell a substantial majority of its remaining servicing obligations and servicing assets (including advances) to the 2011 subservicer. The servicing was transferred to the buyer in stages, and was substantially completed in first quarter 2014. The servicing still retained by FHN continues to be subserviced by the 2011 subservicer.

As servicer, FHN had contractual obligations to the owners of the loans, primarily GSEs and securitization trustees, to handle billing, custodial, and other tasks related to each loan. Each subservicer undertook to perform those obligations on FHN s behalf during the applicable subservicing period, although FHN legally remained the servicer of record for those loans that were subserviced.

The 2008 subservicer has been subject to a consent decree, and entered into a settlement agreement, with regulators related to alleged deficiencies in servicing and foreclosure practices. The 2008 subservicer has made demands of FHN, under the 2008 subservicing agreement, to pay certain resulting costs and damages totaling $43.5 million. FHN disagrees with those demands and has made no payments. This disagreement has the potential to result in litigation and, in any such future litigation, the claim against FHN may be substantial.

A certificate holder has contacted FHN, threatening to make claims based on alleged deficiencies in servicing loans held in certain FH proprietary securitization trusts. FHN cannot predict how this inquiry will proceed nor whether any claim or suit, if made or brought, will be material to FHN.

Origination Data

From 2005 through 2008, FHN originated and sold $69.5 billion of mortgage loans to the Agencies. This includes $57.6 billion of loans sold to GSEs and $11.9 billion of loans guaranteed by Ginnie Mae. Although FHN conducted these businesses before 2005, GSE loans originated in 2005 through 2008 account for approximately 90 percent of all repurchase requests/make-whole claims received from the 2008 platform sale through December 31, 2015.

From 2005 through 2007, $26.7 billion of mortgage loans were included in FH proprietary securitizations.

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Note 10 Contingencies and Other Disclosures (Continued)

Mortgage-Related Glossary

Term	Definition
Agencies	the two GSEs and Ginnie Mae
certificates	securities sold to investors representing interests in mortgage loan securitizations
DOJ	U.S. Department of Justice
DRA	definitive resolution agreement with a GSE
Fannie Mae, Fannie, FNMA	Federal National Mortgage Association
FH proprietary securitization	securitization of mortgages sponsored by FHN under its First Horizon brand
FHA	Federal Housing Administration
FHFA	Federal Housing Financing Agency, conservator for the GSEs
Freddie Mac, Freddie, FHLMC	Federal Home Loan Mortgage Corporation
Ginnie Mae, Ginnie, GNMA	Government National Mortgage Association
GSEs	Fannie Mae and Freddie Mac
HELOC	home equity line of credit
HUD	Dept. of Housing and Urban Development
LTV	loan-to-value, a ratio of the loan amount divided by the home value
MI	private mortgage insurance, insuring against borrower payment default
MSR	mortgage servicing rights
nonconforming loans	loans that did not conform to Agency program requirements
other whole loans sold	mortgage loans sold to private, non-Agency purchasers
2008 platform sale, platform sale, 2008 sale	FHN s sale of its national mortgage origination and servicing platforms in 2008
pipeline	pipeline of mortgage repurchase, make-whole, & certain related claims against FHN
UPB	unpaid principal balance
VA	Veterans Administration

Repurchase and Foreclosure Liability

The repurchase and foreclosure liability is comprised of reserves to cover estimated loss content in the active pipeline, estimated future inflows, as well as estimated loss content related to certain known claims not currently included in the active pipeline. FHN compares the estimated probable incurred losses determined under the applicable loss estimation approaches described above for the respective periods with current reserve levels. Changes in the estimated required liability levels are recorded as necessary through the repurchase and foreclosure provision.

Based on currently available information and experience to date, FHN has evaluated its loan repurchase, make-whole, and certain related exposures and has accrued for losses of $68.1 million and $117.2 million as of June 30, 2016 and 2015, respectively, including a smaller amount related to equity-lending junior lien loan sales. Accrued liabilities for FHN s estimate of these obligations are reflected in Other liabilities on the Consolidated Condensed Statements of Condition. Charges to increase the liability are included within Repurchase and foreclosure provision on the Consolidated Condensed Statements of Income. The estimates are based upon currently available information and fact patterns that exist as of the balance sheet dates and could be subject to future changes. Changes to any one of these factors could significantly impact the estimate of FHN s liability.

Government-Backed Mortgage Lending Programs

FHN s FHA and VA program lending was substantial prior to the 2008 platform sale, and has continued at a much lower level since then. As lender, FHN made certain representations and warranties as to the compliance of the loans with program requirements. Over the past several years, most recently in first quarter 2015, FHN occasionally has recognized significant losses associated with settling claims and potential claims by government agencies, and by private parties asserting claims on behalf of agencies, related to these origination activities. At June 30, 2016, FHN had not accrued a liability for any matter related to these government lending programs, and no pending or known threatened matter related to these programs represented a material loss contingency described above.

Other FHN Mortgage Exposures

At June 30, 2016, FHN had not accrued a liability for exposure for repurchase of first-lien loans related to FH proprietary securitizations arising from claims from the trustee that FHN breached its representations and warranties in FH proprietary securitizations at closing. FHN s trustee is a defendant in a lawsuit in which the plaintiffs have asserted that the trustee has duties to

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Note 10 Contingencies and Other Disclosures (Continued)

review loans and otherwise to act against FHN outside of the duties specified in the applicable trust documents; FHN is not a defendant in that suit and is not able to assess what, if any, exposure FHN may have as a result of it.

FHN is defending, directly or as indemnitor, certain pending lawsuits brought by purchasers of certificates in FH proprietary securitizations or their assignees. FHN believes a new lawsuit based on federal securities claims that offering disclosures were deficient cannot be brought at this time due to the running of applicable limitation periods, but other investor claims, based on other legal theories, might still be possible. Due to the sales of MSR from 2008 through 2014, FHN has limited visibility into current loan information such as principal payoffs, refinance activity, delinquency trends, and loan modification activity.

Many non-GSE purchasers of whole loans from FHN included those loans in their own securitizations. Regarding such other whole loans sold, FHN made representations and warranties concerning the loans and provided indemnity covenants to the purchaser/securitizer. Typically the purchaser/securitizer assigned key contractual rights against FHN to the securitization trustee. As mentioned above, repurchase and make-whole claims related to specific loans are included in the active pipeline and repurchase reserve. In addition, currently the following categories of actions are pending which involve FHN and other whole loans sold: (i) FHN has received indemnification requests from purchasers of loans or their assignees in cases where FHN is not a defendant; (ii) FHN has received subpoenas seeking loan reviews in cases where FHN is not a defendant; (iii) FHN has received repurchase demands from purchasers or their assignees; and (iv) FHN is a defendant in legal actions involving FHN-originated loans. At June 30, 2016, FHN had not accrued a liability for any litigation matter related to other whole loans sold; however, FHN s repurchase and foreclosure liability considered certain known exposures from other whole loans sold.

Certain government entities have subpoenaed information from FHN and others. These entities include the FDIC (on behalf of certain failed banks) and the FHLBs of San Francisco, Atlanta, and Seattle, among others. These entities purport to act on behalf of several purchasers of FH proprietary securitizations, and of non-FH securitizations which included other whole loans sold. Collectively, the subpoenas seek information concerning: a number of FH proprietary securitizations and/or underlying loan originations; and originations of certain other whole loans sold which, in many cases, were included by the purchaser in its own securitizations. Some subpoenas fail to identify the specific investments made or loans at issue. Moreover, FHN has limited information regarding at least some of the loans under review. Unless and until a review (if related to specific loans) becomes an identifiable repurchase claim, the associated loans are not considered part of the active pipeline.

OTHER DISCLOSURES

Visa Matters

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

Conversion of these shares into Class A shares of Visa and, with limited exceptions, transfer of these shares is restricted until the final resolution of the covered litigation. In conjunction with the prior sales of Visa Class B shares in December 2010 and September 2011, FHN and the purchasers entered into derivative transactions whereby FHN will make, or receive, cash payments whenever the conversion ratio of the Visa Class B shares into Visa Class A shares is adjusted. The conversion ratio is adjusted when Visa deposits funds into the escrow account to cover certain litigation. As of June 30, 2016 and 2015, the derivative liabilities were $6.8 million and $4.8 million, respectively.

In July 2012, Visa and MasterCard announced a joint settlement (the Settlement) related to the Payment Card Interchange matter, one of the Covered Litigation matters. Based on the amount of the Settlement attributable to Visa and an assessment of FHN s contingent liability accrued for Visa litigation matters, the Settlement did not have a material impact on FHN. The Settlement was vacated upon appeal in June 2016. Accordingly, the outcome of this matter remains uncertain. Additionally, other Covered Litigation matters are also pending judicial resolution, including new matters filed by class members who opted out of the Settlement. So long as any Covered Litigation matter remains pending, FHN s ability to transfer its Visa holdings continues to be restricted.

FHN now holds approximately 1.1 million Visa Class B shares. FHN s Visa shares are not considered to be marketable and therefore are included in the Consolidated Condensed Statements of Condition at their historical cost of $0. As of June 30, 2016, the conversion ratio is 165 percent reflecting a Visa stock split in March 2015, and the contingent liability is $.8 million. Future funding of the escrow would dilute this conversion ratio by an amount that is not determinable at present. Based on the closing price on June 30, 2016, assuming conversion into Class A shares at the current conversion ratio, FHN s Visa holdings would have a value of approximately $136 million. Recognition of this value is dependent upon the final resolution of the remainder of Visa s Covered Litigation matters without further reduction of the conversion ratio.

Note 10 Contingencies and Other Disclosures (Continued)

Indemnification Agreements and Guarantees

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

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Note 11 Pension, Savings, and Other Employee Benefits

Pension plan. FHN sponsors a noncontributory, qualified defined benefit pension plan to employees hired or re-hired on or before September 1, 2007. Pension benefits are based on years of service, average compensation near retirement or other termination, and estimated social security benefits at age 65. Benefits under the plan are frozen so that years of service and compensation changes after 2012 do not affect the benefit owed. Minimum contributions are based upon actuarially determined amounts necessary to fund the benefit obligation. FHN did not make any contributions to the qualified pension plan in 2015 or in the first half of 2016. Decisions to contribute to the plan are based upon pension funding requirements under the Pension Protection Act, the maximum amount deductible under the Internal Revenue Code, the actual performance of plan assets, and trends in the regulatory environment. FHN expects to contribute approximately $165 million to the qualified pension plan in third quarter 2016.

FHN also maintains non-qualified plans including a supplemental retirement plan that covers certain employees whose benefits under the qualified pension plan have been limited by tax rules. These other non-qualified plans are unfunded, and contributions to these plans cover all benefits paid under the non-qualified plans. Payments made under the non-qualified plans were $4.9 million for 2015. FHN anticipates making benefit payments under the non-qualified plans of $5.2 million in 2016.

Savings plan. FHN provides all qualifying full-time employees with the opportunity to participate in the FHN tax qualified 401(k) savings plan. The qualified plan allows employees to defer receipt of earned salary, up to tax law limits, on a tax-advantaged basis. Accounts, which are held in trust, may be invested in a wide range of mutual funds and in FHN common stock. Up to tax law limits, FHN provides a 100 percent match for the first 6 percent of salary deferred, with company matching contributions invested according to a participant s current investment elections. Through a non-qualified savings restoration plan, FHN provides a restorative benefit to certain highly-compensated employees who participate in the savings plan and whose contribution elections are capped by tax limitations.

Other employee benefits. FHN provides postretirement life insurance benefits to certain employees and also provides postretirement medical insurance benefits to retirement-eligible employees. The postretirement medical plan is contributory with FHN contributing a fixed amount for certain participants. FHN s postretirement benefits include certain prescription drug benefits.

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

	Pension Benefits		Other Benefits	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Components of net periodic benefit cost				
Service cost	**$ 10**	$ 10	**$ 27**	$ 38
Interest cost	**7,882**	9,020	**317**	360
Expected return on plan assets	**(9,772)**	(9,391)	**(229)**	(242)
Amortization of unrecognized:				
Prior service cost/(credit)	**50**	83	**42**	(291)
Actuarial (gain)/loss	**2,067**	2,395	**(232)**	(244)
Net periodic benefit cost	**$ 237**	$ 2,117	**$ (75)**	$ (379)

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

(Dollars in thousands)	Pension Benefits **2016**	Pension Benefits 2015	Other Benefits **2016**	Other Benefits 2015
Components of net periodic benefit cost				
Service cost	**$ 20**	$ 20	**$ 55**	$ 75
Interest cost	**15,764**	18,040	**634**	720
Expected return on plan assets	**(19,545)**	(18,783)	**(458)**	(483)
Amortization of unrecognized:				
Prior service cost/(credit)	**99**	166	**85**	(582)
Actuarial (gain)/loss	**4,135**	4,791	**(465)**	(488)
Net periodic benefit cost	**$ 473**	$ 4,234	**$ (149)**	$ (758)

In 2016, FHN changed its methodology for the calculation of interest cost for its applicable employee benefit plans. Prior to 2016 FHN utilized a weighted average discount rate to determine interest cost, which is the same discount rate used to calculate the projected benefit obligation. Starting in 2016, FHN has adopted a spot rate approach which applies duration-specific rates from the

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Note 11 Pension, Savings, and Other Employee Benefits (Continued)

full yield curve to estimated future benefit payments for the determination of interest cost. This change in accounting estimate is expected to reduce annual interest cost across all plans by $5.8 million in 2016.

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Note 12 Business Segment Information

FHN has four business segments: regional banking, fixed income, corporate, and non-strategic. The regional banking segment offers financial products and services, including traditional lending and deposit taking, to retail and commercial customers in Tennessee and other selected markets. Regional banking provides investments, financial planning, trust services and asset management, credit card, and cash management. Additionally, the regional banking segment includes correspondent banking which provides credit, depository, and other banking related services to other financial institutions nationally. The fixed income segment consists of fixed income sales, trading, and strategies for institutional clients in the U.S. and abroad, as well as loan sales, portfolio advisory, and derivative sales. The corporate segment consists of unallocated corporate expenses, expense on subordinated debt issuances, bank-owned life insurance, unallocated interest income associated with excess equity, net impact of raising incremental capital, revenue and expense associated with deferred compensation plans, funds management, tax credit investment activities, gains on the extinguishment of debt, and acquisition-related costs. The non-strategic segment consists of the wind-down national consumer lending activities, legacy mortgage banking elements including servicing fees, and the associated ancillary revenues and expenses related to these businesses. Non-strategic also includes the wind-down trust preferred loan portfolio and exited businesses.

Periodically, FHN adapts its segments to reflect managerial or strategic changes. FHN may also modify its methodology of allocating expenses and equity among segments which could change historical segment results. Business segment revenue, expense, asset, and equity 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, to an extent they are subjective. Generally, all assignments and allocations have been consistently applied for all periods presented. The following table reflects the amounts of consolidated revenue, expense, tax, and assets for each segment for the three and six months ended June 30:

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Consolidated				
Net interest income	**$ 176,264**	$ 166,640	**$ 348,338**	$ 323,506
Provision for loan losses	**4,000**	2,000	**7,000**	7,000
Noninterest income	**145,514**	130,301	**279,819**	259,990
Noninterest expense	**226,822**	218,394	**453,749**	594,615
Income/(loss) before income taxes	**90,956**	76,547	**167,408**	(18,119)
Provision/(benefit) for income taxes	**30,016**	21,590	**54,255**	(671)
Net income/(loss)	**$ 60,940**	$ 54,957	**$ 113,153**	$ (17,448)
Average assets	**$ 26,828,548**	$ 25,411,578	**$ 26,723,621**	$ 25,526,120

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

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Note 12 Business Segment Information (Continued)

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Regional Banking				
Net interest income	**$ 178,321**	$ 165,903	**$ 350,634**	$ 320,311
Provision/(provision credit) for loan losses	**10,883**	17,078	**25,650**	21,993
Noninterest income	**61,275**	65,983	**120,551**	126,179
Noninterest expense	**164,315**	143,960	**309,666**	279,437
Income/(loss) before income taxes	**64,398**	70,848	**135,869**	145,060
Provision/(benefit) for income taxes	**22,455**	25,086	**47,881**	51,582
Net income/(loss)	**$ 41,943**	$ 45,762	**$ 87,988**	$ 93,478
Average assets	**$ 16,575,676**	$ 15,021,991	**$ 16,260,430**	$ 14,626,026
Fixed Income				
Net interest income	**$ 3,147**	$ 4,293	**$ 5,813**	$ 8,613
Noninterest income	**78,083**	56,002	**145,205**	117,566
Noninterest expense	**62,881**	51,253	**121,549**	105,992
Income/(loss) before income taxes	**18,349**	9,042	**29,469**	20,187
Provision/(benefit) for income taxes	**6,755**	3,154	**10,630**	7,298
Net income/(loss)	**$ 11,594**	$ 5,888	**$ 18,839**	$ 12,889
Average assets	**$ 2,470,699**	$ 2,417,317	**$ 2,370,179**	$ 2,432,194
Corporate				
Net interest income/(expense)	**$ (15,850)**	$ (17,366)	**$ (30,214)**	$ (33,440)
Noninterest income	**4,909**	3,901	**10,632**	9,286
Noninterest expense	**16,072**	14,061	**29,551**	28,403
Income/(loss) before income taxes	**(27,013)**	(27,526)	**(49,133)**	(52,557)
Provision/(benefit) for income taxes	**(12,840)**	(15,991)	**(24,094)**	(27,694)
Net income/(loss)	**$ (14,173)**	$ (11,535)	**$ (25,039)**	$ (24,863)
Average assets	**$ 5,833,122**	$ 5,562,880	**$ 6,097,578**	$ 5,985,074
Non-Strategic				
Net interest income	**$ 10,646**	$ 13,810	**$ 22,105**	$ 28,022
Provision/(provision credit) for loan losses	**(6,883)**	(15,078)	**(18,650)**	(14,993)
Noninterest income	**1,247**	4,415	**3,431**	6,959
Noninterest expense	**(16,446)**	9,120	**(7,017)**	180,783
Income/(loss) before income taxes	**35,222**	24,183	**51,203**	(130,809)

Provision/(benefit) for income taxes		**13,646**		9,341		**19,838**		(31,857)
Net income/(loss)	**$**	**21,576**	$	14,842	**$**	**31,365**	$	(98,952)
Average assets	**$**	**1,949,051**	$	2,409,390	**$**	**1,995,434**	$	2,482,826

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

Note 13 Variable Interest Entities

ASC 810 defines a VIE as a legal entity where (a) the equity investors, as a group, lack sufficient equity at risk for the entity to finance its activities without additional subordinated financial support, (b) the equity investors, as a group, lack either, (1) the power through voting rights, or similar rights, to direct the activities of an entity that most significantly impact the entity s economic performance, (2) the obligation to absorb the expected losses of the entity, or (3) the right to receive the expected residual returns of the entity, or (c) the entity is structured with non-substantive voting rights. A variable interest is a contractual ownership, or other interest, that fluctuates with changes in the fair value of the VIE s net assets exclusive of variable interests. Under ASC 810, as amended, a primary beneficiary is required to consolidate a VIE when it has a variable interest in a VIE that provides it with a controlling financial interest. For such purposes, the determination of whether a controlling financial interest exists is based on whether a single party has both the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant.

Consolidated Variable Interest Entities

FHN holds variable interests in a proprietary HELOC securitization trust it established as a source of liquidity for consumer lending operations. Based on its restrictive nature, the trust is considered a VIE as the holders of equity at risk do not have the power through voting rights or similar rights to direct the activities that most significantly impact the trust s economic performance. The retention of MSR and a residual interest results in FHN potentially absorbing losses or receiving benefits that are significant to the trust. FHN is considered the primary beneficiary, as it is assumed to have the power, as Master Servicer, to most significantly impact the activities of the VIE. Consolidation of the trust results in the recognition of the trust proceeds as restricted borrowings since the cash flows on the securitized loans can only be used to settle the obligations due to the holders of trust securities. Through first quarter 2016 the trust experienced a rapid amortization period and FHN was obligated to provide subordinated funding. During the period, cash payments from borrowers were accumulated to repay outstanding debt securities while FHN continued to make advances to borrowers when they drew on their lines of credit. FHN then transferred the newly generated receivables into the securitization trust. FHN is reimbursed for these advances only after other parties in the securitization have received all of the cash flows to which they are entitled. If loan losses requiring draws on the related monoline insurers policies (which protect bondholders in the securitization) exceed a certain level, FHN may not receive reimbursement for all of the funds advanced to borrowers, as the senior bondholders and the monoline insurers typically have priority for repayment. Amounts funded from monoline insurance policies are considered restricted term borrowings in FHN s Consolidated Condensed Statements of Condition. Except for recourse due to breaches of representations and warranties made by FHN in connection with the sale of the loans to the trust, the creditors of the trust hold no recourse to the assets of FHN.

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

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Note 13 Variable Interest Entities (Continued)

The following table summarizes VIEs consolidated by FHN as of June 30, 2016 and 2015:

	June 30, 2016		June 30, 2015	
(Dollars in thousands)	**On-Balance Sheet Consumer Loan Securitization Carrying Value**	**Rabbi Trusts Used for Deferred Compensation Plans Carrying Value**	On-Balance Sheet Consumer Loan Securitization Carrying Value	Rabbi Trusts Used for Deferred Compensation Plans Carrying Value
Assets:				
Cash and due from banks	**$ 396**	**N/A**	$ 1,382	N/A
Loans, net of unearned income	**43,479**	**N/A**	66,444	N/A
Less: Allowance for loan losses	**453**	**N/A**	214	N/A
Total net loans	**43,026**	**N/A**	66,230	N/A
Other assets	**241**	**$ 71,923**	184	$ 69,077
Total assets	**$ 43,663**	**$ 71,923**	$ 67,796	$ 69,077
Liabilities:				
Term borrowings	**$ 30,956**	**N/A**	$ 55,679	N/A
Other liabilities	**2**	**$ 53,000**	3	$ 51,861
Total liabilities	**$ 30,958**	**$ 53,000**	$ 55,682	$ 51,861

Nonconsolidated Variable Interest Entities

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

FHN accounts for all qualifying LIHTC investments under the proportional amortization method. Under this method an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense/(benefit). LIHTC investments that do not qualify for the proportional amortization method are accounted for using the equity method. Expenses associated with these investments were not significant for the three or six months ended June 30, 2016 and 2015. The following table summarizes the impact to the Provision/(benefit) for income taxes on the Consolidated Condensed Statements of Income for the three and six months ended June 30, 2016 and 2015 for LIHTC investments accounted for under the proportional amortization method.

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Provision/(benefit) for income taxes:				
Amortization of qualifying LIHTC investments	**$ 2,330**	$ 2,180	**$ 4,628**	$ 4,360
Low income housing tax credits	**(2,534)**	(2,363)	**(5,057)**	(4,726)
Other tax benefits related to qualifying LIHTC investments	**(1,069)**	(755)	**(2,179)**	(1,599)

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Note 13 Variable Interest Entities (Continued)

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

FTHC also makes equity investments as a limited partner or non-managing member in entities that receive Historic Tax Credits pursuant to Section 47 of the Internal Revenue Code. The purpose of these entities is the rehabilitation of historic buildings with the tax credits provided to incent private investment in the historic cores of cities and towns. These entities are considered VIEs as FTHC, the holder of the equity investment at risk, does not have the ability to direct the activities that most significantly affect the performance of the entity through voting rights or similar rights. FTHC could absorb losses that are significant to the entities as it has a risk of loss for its capital contributions and funding commitments to each partnership. The managing members are considered the primary beneficiaries as managerial functions give them the power to direct the activities that most significantly impact the entities economic performance and the managing members are exposed to all losses beyond FTHC s initial capital contributions and funding commitments.

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

On-Balance Sheet Trust Preferred Securitization. In 2007, FTBNA executed a securitization of certain small issuer trust preferreds for which the underlying trust meets the definition of a VIE as the holders of the equity investment at risk do not have the power through voting rights, or similar rights, to direct the activities that most significantly impact the entity s economic performance. FTBNA could potentially receive benefits or absorb losses that are significant to the trust based on the size and priority of the interests it retained in the securities issued by the trust. However, since FTBNA did not retain servicing or other decision making rights, FTBNA is not the primary beneficiary as it does not

have the power to direct the activities that most significantly impact the trust s economic performance. Accordingly, FTBNA has accounted for the funds received through the securitization as a term borrowing in its Consolidated Condensed Statements of Condition. FTBNA has no contractual requirements to provide financial support to the trust.

Proprietary Trust Preferred Issuances. FHN previously issued junior subordinated debt to First Tennessee Capital II (Capital II). Capital II was considered a VIE as FHN s capital contributions to this trust were not considered at risk in evaluating whether the holders of the equity investments at risk in the trust had the power through voting rights, or similar rights, to direct the activities that most significantly impacted the entity s economic performance. FHN was not the trust s primary beneficiary as FHN s capital contributions to the trust were not considered variable interests as they were not at risk . Consequently, Capital II was not consolidated by FHN. In third quarter 2015 FHN redeemed its junior subordinated debt, and as a result Capital II redeemed its 6.30 percent Capital Securities, Series B, and the trust was terminated.

Note 13 Variable Interest Entities (Continued)

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

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

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

Sale Leaseback Transaction. In fourth quarter 2015, FTB entered into an agreement with a single asset leasing entity for the sale and lease back of an office building. In conjunction with this transaction, FTB loaned funds to a related party of the buyer that were used for the purchase price of the building. FTB also entered into a construction loan agreement with the single asset entity for renovation of the building. Since this transaction did not qualify as a sale, it is being accounted for using the deposit method which creates a net asset or liability for all cash flows between FTB and the buyer. The buyer-lessor in this transaction meets the definition of a VIE as it does not have sufficient equity at risk since FTB is providing the funding for the purchase and renovation. A related party of the buyer-lessor has the power to direct the activities that most significantly impact the operations and could potentially receive benefits or absorb losses that are significant to the transactions, making it the primary beneficiary. Therefore, FTB does not consolidate the leasing entity.

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Note 13 Variable Interest Entities (Continued)

The following table summarizes FHN s nonconsolidated VIEs as of June 30, 2016:

(Dollars in thousands)	Maximum Loss Exposure	Liability Recognized	Classification
Type			
Low income housing partnerships	$ 64,807	$ 11,285	(a)
Other tax credit investments (b) (c)	20,370		Other assets
Small issuer trust preferred holdings (d)	333,341		Loans, net of unearned income
On-balance sheet trust preferred securitization	49,603	64,571	(e)
Proprietary residential mortgage securitizations	19,548		(f)
Holdings of agency mortgage-backed securities (d)	4,385,552		(g)
Short positions in agency mortgage-backed securities (h)	N/A	1,563	Trading liabilities
Commercial loan troubled debt restructurings (i)	39,765		Loans, net of unearned income
Sale-leaseback transaction	11,827		(j)

(a) Maximum loss exposure represents $53.5 million of current investments and $11.3 million of accrued contractual funding commitments. Accrued funding commitments represent unconditional contractual obligations for future funding events, and are also recognized in Other liabilities. FHN currently expects to be required to fund these accrued commitments by the end of 2016.
(b) A liability is not recognized as investments are written down over the life of the related tax credit.
(c) Maximum loss exposure represents current investment balance. Of the initial investment, $18.0 million was funded through loans from community development enterprises.
(d) Maximum loss exposure represents the value of current investments. A liability is not recognized as FHN is solely a holder of the trusts securities.
(e) Includes $112.5 million classified as Loans, net of unearned income, and $1.7 million classified as Trading securities which are offset by $64.6 million classified as Term borrowings.
(f) Includes $.3 million classified as MSR, $2.8 million classified as Trading securities, and $16.4 million of aggregate servicing advances.
(g) Includes $.6 billion classified as Trading securities and $3.8 billion classified as Securities available-for-sale.
(h) No exposure of loss due to the nature of FHN s involvement.
(i) Maximum loss exposure represents $39.7 million of current receivables and $.1 million of contractual funding commitments on loans related to commercial borrowers involved in a troubled debt restructuring.
(j) Maximum loss exposure represents the current loan balance plus additional funding commitments less amounts received from the buyer-lessor.

The following table summarizes FHN s nonconsolidated VIEs as of June 30, 2015:

(Dollars in thousands)	Maximum Loss Exposure	Liability Recognized	Classification

Type			
Low income housing partnerships	$ 68,405	$ 11,976	(a)
Other tax credit investments (b) (c)	21,690		Other assets
Small issuer trust preferred holdings (d)	344,321		Loans, net of unearned income
On-balance sheet trust preferred securitization	50,506	63,686	(e)
Proprietary trust preferred issuances (f)	N/A	206,186	Term borrowings
Proprietary and agency residential mortgage securitizations	24,664		(g)
Holdings of agency mortgage-backed securities (d)	3,929,684		(h)
Short positions in agency mortgage-backed securities (f)	N/A	1,486	Trading liabilities
Commercial loan troubled debt restructurings (i) (j)	36,047		Loans, net of unearned income

(a) Maximum loss exposure represents $56.4 million of current investments and $12.0 million of accrued contractual funding commitments. Accrued funding commitments represent unconditional contractual obligations for future funding events, and are also recognized in Other liabilities. FHN currently expects to be required to fund these accrued commitments by the end of 2016.

(b) A liability is not recognized as investments are written down over the life of the related tax credit.

(c) Maximum loss exposure represents current investment balance. Of the initial investment, $18.0 million was funded through loans from community development enterprises.

(d) Maximum loss exposure represents the value of current investments. A liability is not recognized as FHN is solely a holder of the trusts securities.

(e) Includes $112.5 million classified as Loans, net of unearned income, and $1.7 million classified as Trading securities which are offset by $63.7 million classified as Term borrowings.

(f) No exposure of loss due to the nature of FHN s involvement.

(g) Includes $.6 million classified as MSR related to proprietary and agency residential mortgage securitizations and $4.9 million classified as Trading securities related to proprietary and agency residential mortgage securitizations. Aggregate servicing advances of $19.1 million are classified as Other assets.

(h) Includes $473.8 million classified as Trading securities and $3.5 billion classified as Securities available-for-sale.

(i) Maximum loss exposure represents $30.9 million of current receivables and $5.1 million of contractual funding commitments on loans related to commercial borrowers involved in a troubled debt restructuring.

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

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Note 14 Derivatives

In the normal course of business, FHN utilizes various financial instruments (including derivative contracts and credit-related agreements) through its fixed income and risk management operations, as part of its risk management strategy and as a means to meet customers needs. Derivative instruments are subject to credit and market risks in excess of the amount recorded on the balance sheet as required by GAAP. The contractual or notional amounts of these financial instruments do not necessarily represent the amount of 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) controls, coordinates, and monitors the usage and effectiveness of these financial instruments.

Credit risk represents the potential loss that may occur if a party to a transaction fails to perform according to the terms of the contract. The measure of credit exposure is the replacement cost of contracts with a positive fair value. FHN manages credit risk by entering into financial instrument transactions through national exchanges, primary dealers or approved counterparties, and by using mutual margining and master netting agreements whenever possible to limit potential exposure. FHN also maintains collateral posting requirements with certain counterparties to limit credit risk. On June 30, 2016 and 2015, respectively, FHN had $90.0 million and $80.6 million of cash receivables and $42.8 million and $41.1 million of cash payables related to collateral posting under master netting arrangements, inclusive of collateral posted related to contracts with adjustable collateral posting thresholds and over collateralized positions, with derivative counterparties. With exchange-traded contracts, the credit risk is limited to the clearinghouse used. For non-exchange traded instruments, credit risk may occur when there is a gain in the fair value of the financial instrument and the counterparty fails to perform according to the terms of the contract and/or when the collateral proves to be of insufficient value. See additional discussion regarding master netting agreements and collateral posting requirements later in this note under the heading Master Netting and Similar Agreements. Market risk represents the potential loss due to the decrease in the value of a financial instrument caused primarily by changes in interest rates 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 as a risk management tool. Where contracts have been created for customers, FHN enters into upstream transactions with dealers to offset its risk exposure. Contracts with dealers that require central clearing are novated to a clearing agent who becomes FHN s counterparty. Derivatives are also used as a risk management tool to hedge FHN s exposure to changes in interest rates or other defined market risks.

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

Trading Activities

FHN s fixed income segment 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. Fixed income also enters into interest rate contracts, including caps, swaps, and floors, for its customers. In addition, fixed income enters into futures and option contracts to economically hedge interest rate risk associated with a portion of its securities inventory. These transactions are measured at fair value, with changes in fair value recognized currently in fixed income noninterest income. Related assets and liabilities are recorded on the Consolidated Condensed Statements of Condition as Derivative assets and Derivative liabilities. The FTN Financial Risk Committee and the Credit Risk Management Committee collaborate to mitigate credit risk related to these transactions. Credit risk is controlled through credit approvals, risk control limits, and ongoing monitoring procedures. Total trading revenues were $69.3 million and $46.7 million for the three months ended June 30, 2016 and 2015, respectively, and $126.9 million and $100.2 million for the six months ended June 30, 2016 and 2015. Trading revenues are inclusive of both derivative and non-derivative financial instruments, and are included in fixed income noninterest income.

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Note 14 Derivatives (Continued)

The following tables summarize FHN s derivatives associated with fixed income trading activities as of June 30, 2016 and 2015:

	June 30, 2016		
(Dollars in thousands)	**Notional**	**Assets**	**Liabilities**
Customer Interest Rate Contracts	$ 1,877,212	$ 95,612	$ 473
Offsetting Upstream Interest Rate Contracts	1,877,212	473	95,612
Option Contracts Purchased	10,000	13	
Forwards and Futures Purchased	4,428,569	19,437	1,653
Forwards and Futures Sold	4,587,802	2,136	17,965

	June 30, 2015		
(Dollars in thousands)	**Notional**	**Assets**	**Liabilities**
Customer Interest Rate Contracts	$ 1,640,844	$ 66,078	$ 3,285
Offsetting Upstream Interest Rate Contracts	1,640,844	3,285	66,078
Option Contracts Purchased	15,000	55	
Forwards and Futures Purchased	2,297,489	2,773	2,174
Forwards and Futures Sold	2,531,248	2,526	2,614

Interest Rate Risk Management

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

FHN has designated a derivative transaction in a hedging strategy to manage interest rate risk on $400.0 million of senior debt issued by FTBNA which matures in December 2019. This qualifies for hedge accounting under ASC 815-20 using the long-haul method. FHN entered into a pay floating, receive fixed interest rate swap to hedge the interest rate risk of the senior debt. The balance sheet impact of this swap was $12.9 million and $2.3 million in Derivative assets as of June 30, 2016 and 2015, respectively. There was an insignificant level of ineffectiveness related to this hedge.

FHN has designated a derivative transaction in a hedging strategy to manage interest rate risk on $500.0 million of senior debt which matures in December 2020. This qualifies for hedge accounting under ASC 815-20 using the

long-haul method. FHN entered into a pay floating, receive fixed interest rate swap to hedge the interest rate risk of the senior debt. The balance sheet impact of this swap was $11.6 million in Derivative assets as of June 30, 2016. There was an insignificant level of ineffectiveness related to this hedge.

Prior to maturity in April 2016, FHN designated a derivative transaction in a hedging strategy to manage interest rate risk of certain term borrowings totaling $250.0 million. These swaps were accounted for as fair value hedges under the shortcut method. The balance sheet amount of this swap was $9.1 million in Derivative assets on June 30, 2015.

Prior to maturity in December 2015, FHN designated a derivative transaction in a hedging strategy to manage interest rate risk on its $500 million noncallable senior debt. This derivative qualified for hedge accounting under ASC 815-20 using the long-haul method. FHN hedged the interest rate risk on this debt using a pay floating, receive fixed interest rate swap. The balance sheet amount of this swap was $4.5 million in Derivative assets as of June 30, 2015. There was no ineffectiveness related to this hedge.

Prior to redemption in third quarter 2015, FHN designated derivative transactions in hedging strategies to manage interest rate risk on subordinated debt related to its trust preferred securities. These qualified for hedge accounting under ASC 815-20 using the long-haul method. FHN hedged the interest rate risk of the subordinated debt totaling $200 million using a pay floating, receive fixed interest rate swap. The balance sheet amount of this swap was $5.1 million in Derivative liabilities as of June 30, 2015. There was no ineffectiveness related to this hedge. In third quarter 2015, FHN called its junior subordinated debt, which triggered a call of the trust preferred securities, and removed all associated hedges. The redemption resulted in a gain on extinguishment of debt of $5.8 million.

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Note 14 Derivatives (Continued)

The following tables summarize FHN s derivatives associated with interest rate risk management activities as of and for the three and six months ended June 30, 2016 and 2015:

				Gains/(Losses)	
(Dollars in thousands)	**Notional**	**Assets**	**Liabilities**	**Three Months Ended June 30, 2016**	**Six Months Ended June 30, 2016**
Customer Interest Rate Contracts Hedging					
Hedging Instruments and Hedged Items:					
Customer Interest Rate Contracts (a)	$ 906,197	$ 47,086	$ 115	$ 8,154	$ 20,713
Offsetting Upstream Interest Rate Contracts (a)	906,197	115	47,586	(8,154)	(20,713)
Debt Hedging					
Hedging Instruments:					
Interest Rate Swaps (b)	$ 900,000	$ 24,511	N/A	$ 6,660	$ 26,606
Hedged Items:					
Term Borrowings (b)	N/A	N/A	$ 900,000(c)	$ (6,557)(d)	$ (26,211)(d)

				Gains/(Losses)	
(Dollars in thousands)	**Notional**	**Assets**	**Liabilities**	**Three Months Ended June 30, 2015**	**Six Months Ended June 30, 2015**
Customer Interest Rate Contracts Hedging					
Hedging Instruments and Hedged Items:					
Customer Interest Rate Contracts (a)	$ 744,167	$ 24,148	$ 409	$ (6,158)	$ (1,915)
Offsetting Upstream Interest Rate Contracts (a)	744,167	409	24,648	6,158	1,915
Debt Hedging					
Hedging Instruments:					
Interest Rate Swaps (b)	$ 1,350,000	$ 15,954	$ 5,131	$ (10,810)	$ (9,840)
Hedged Items:					
Term Borrowings (b)	N/A	N/A	$ 1,350,000(c)	$ 10,735(d)	$ 9,812(d)

(a) Gains/losses included in the All other expense section of the Consolidated Condensed Statements of Income.
(b)

Gains/losses included in the All other income and commissions section of the Consolidated Condensed Statements of Income.

(c) Represents par value of term borrowings being hedged.

(d) Represents gains and losses attributable to changes in fair value due to interest rate risk as designated in ASC 815-20 hedging relationships.

In first quarter 2016, FHN entered into a pay floating, receive fixed interest rate swap in a hedging strategy to manage its exposure to the variability in cash flows related to the interest payments for the following five years on $250 million principal of debt instruments, which primarily consist of held-to-maturity trust preferred loans that have variable interest payments based on LIBOR. This qualifies for hedge accounting as a cash flow hedge under ASC 815-20. Changes in the fair value of this derivative are recorded as a component of AOCI, to the extent that the hedge relationship is effective. Amounts are reclassified from AOCI to earnings as the hedged cash flows affect earnings. FTB measures ineffectiveness using the Hypothetical Derivative Method. To the extent that any ineffectiveness exists in the hedge relationships, the amounts are recorded in current period earnings.

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Note 14 Derivatives (Continued)

The following table summarizes FHN s derivative activities associated with cash flow hedges as of and for the three and six months ended June 30, 2016.

(Dollars in thousands)	Notional	Assets	Liabilities	Gains/(Losses) Three Months Ended June 30, 2016	Gains/(Losses) Six Months Ended June 30, 2016
Cash Flow Hedges					
Hedging Instruments:					
Interest Rate Swaps	$ 250,000	$ 7,606	N/A	$ 1,988(a)	$ 7,606(a)
Hedged Items:					
Variability in Cash Flows Related to Trust Preferred Loans	N/A	250,000	N/A	N/A	N/A

(a) Includes approximately $1.7 million expected to be reclassified into earnings in the next twelve months.

FHN hedges held-to-maturity trust preferred loans which have an initial fixed rate term before conversion to a floating rate. FHN has entered into pay fixed, receive floating interest rate swaps to hedge the interest rate risk associated with this initial term. Interest paid or received for these swaps is recognized as an adjustment of the interest income of the assets whose risk is being hedged. Basis adjustments remaining at the end of the hedge term are being amortized as an adjustment to interest income over the remaining life of the loans. Gains or losses are included in Other income and commissions on the Consolidated Condensed Statements of Income.

The following tables summarize FHN s derivative activities associated with held-to-maturity trust preferred loans as of and for the three and six months ended June 30, 2016 and 2015:

(Dollars in thousands)	Notional	Assets	Liabilities	Gains/(Losses) Three Months Ended June 30, 2016	Gains/(Losses) Six Months Ended June 30, 2016
Loan Portfolio Hedging					
Hedging Instruments:					
Interest Rate Swaps	$ 6,500	N/A	$ 379	$ 66	$ 109
Hedged Items:					
Trust Preferred Loans (a)	N/A	$ 6,500(b)	N/A	$ (65)(c)	$ (106)(c)

(Dollars in thousands)	Notional	Assets	Liabilities	Gains/(Losses) Three Months Ended June 30,	Gains/(Losses) Six Months Ended June 30,

				2015	2015
Loan Portfolio Hedging					
Hedging Instruments:					
Interest Rate Swaps	$ 6,500	N/A	$ 640	$ 63	$ 104
Hedged Items:					
Trust Preferred Loans (a)	N/A	$ 6,500(b)	N/A	$ (62)(c)	$ (103)(c)

(a) Assets included in the Loans, net of unearned income section of the Consolidated Condensed Statements of Condition.
(b) Represents principal balance being hedged.
(c) Represents gains and losses attributable to changes in fair value due to interest rate risk as designated in ASC 815-20 hedging relationships.

Other Derivatives

In conjunction with the sales of a portion of its Visa Class B shares, FHN and the purchaser entered into derivative transactions whereby FHN will make or receive cash payments whenever the conversion ratio of the Visa Class B shares into Visa Class A shares is adjusted. As of June 30, 2016 and 2015, the derivative liabilities associated with the sales of Visa Class B shares were $6.8 million and $4.8 million, respectively. See the Visa Matters section of Note 10 Contingencies and Other Disclosures for more information regarding FHN s Visa shares.

FHN utilizes cross currency swaps and cross currency interest rate swaps to economically hedge its exposure to foreign currency risk and interest rate risk associated with non-U.S. dollar denominated loans. As of June 30, 2016 and 2015, these loans were valued at

Note 14 Derivatives (Continued)

$1.5 million and $3.5 million, respectively. The balance sheet amount and the gains/losses associated with these derivatives were not significant.

Master Netting and Similar Agreements

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

Interest rate derivatives are subject to agreements consistent with standard agreement forms of the International Swap and Derivatives Association (ISDA). Currently, all interest rate derivative contracts are entered into as over-the-counter transactions and collateral posting requirements are based on the net asset or liability position with each respective counterparty. For contracts that require central clearing, novation to a counterparty with access to a clearinghouse occurs and collateral is posted. Cash collateral received (posted) for interest rate derivatives is recognized as a liability (asset) on FHN s Consolidated Condensed Statements of Condition.

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

Interest rate derivatives with larger financial institutions entered into prior to required central clearing typically contain provisions whereby the collateral posting thresholds under the agreements adjust based on the credit ratings of both counterparties. If the credit rating of FHN and/or FTBNA is lowered, FHN could be required to post additional collateral with the counterparties. Conversely, if the credit rating of FHN and/or FTBNA is increased, FHN could have collateral released and be required to post less collateral in the future. Also, if a counterparty s credit ratings were to decrease, FHN and/or FTBNA could require the posting of additional collateral; whereas if a counterparty s credit ratings were to increase, the counterparty could require the release of excess collateral. Collateral for these arrangements is adjusted daily based on changes in the net fair value position with each counterparty.

The net fair value, determined by individual counterparty, of all derivative instruments with adjustable collateral posting thresholds was $95.0 million of assets and $81.3 million of liabilities on June 30, 2016, and $72.5 million of assets and $71.6 million of liabilities on June 30, 2015. As of June 30, 2016 and 2015, FHN had received collateral of $168.0 million and $144.2 million and posted collateral of $81.3 million and $71.9 million, respectively, in the normal course of business related to these agreements.

Certain agreements entered into prior to required central clearing also contain accelerated termination provisions, inclusive of the right of offset, if a counterparty s credit rating falls below a specified level. If a counterparty s debt

rating (including FHN s and FTBNA s) were to fall below these minimums, these provisions would be triggered, and the counterparties could terminate the agreements and require immediate settlement of all derivative contracts under the agreements. The net fair value, determined by individual counterparty, of all derivative instruments with credit-risk-related contingent accelerated termination provisions was $94.6 million of assets and $30.7 million of liabilities on June 30, 2016, and $72.5 million of assets and $17.0 million of liabilities on June 30, 2015. As of June 30, 2016 and 2015, FHN had received collateral of $168.0 million and $144.2 million and posted collateral of $33.2 million and $23.3 million, respectively, in the normal course of business related to these contracts.

FHN s fixed income segment buys and sells various types of securities for its customers. When these securities settle on a delayed basis, they are considered forward contracts, and are generally not subject to master netting agreements. For futures and options, FHN transacts through a third party, and the transactions are subject to margin and collateral maintenance requirements. In the event of default, open positions can be offset along with the associated collateral.

For this disclosure, FHN considers the impact of master netting and other similar agreements which allow FHN to settle all contracts with a single counterparty on a net basis and to offset the net derivative asset or liability position with the related securities and cash collateral. The application of the collateral cannot reduce the net derivative asset or liability position below zero, and therefore any excess collateral is not reflected in the tables below.

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Note 14 Derivatives (Continued)

The following table provides a detail of derivative assets and collateral received as presented on the Consolidated Condensed Statements of Condition as of June 30:

				Gross amounts not offset in the Statements of Condition		
(Dollars in thousands)	Gross amounts of recognized assets	Gross amounts offset in the Statements of Condition	Net amounts of assets presented in the Statements of Condition (a)	Derivative liabilities available for offset	Collateral Received	Net amount
Derivative assets:						
2016 (b)	**$ 175,403**	**$**	**$ 175,403**	**$ (13,963)**	**$ (141,426)**	**$ 20,014**
2015 (b)	109,874		109,874	(15,750)	(93,656)	468

(a) Included in Derivative assets on the Consolidated Condensed Statements of Condition. As of June 30, 2016 and 2015, $21.6 million and $5.4 million, respectively, of derivative assets (primarily fixed income forward contracts) have been excluded from these tables because they are generally not subject to master netting or similar agreements.

(b) 2016 and 2015 are comprised entirely of interest rate derivative contracts.

The following table provides a detail of derivative liabilities and collateral pledged as presented on the Consolidated Condensed Statements of Condition as of June 30:

				Gross amounts not offset in the Statements of Condition		
(Dollars in thousands)	Gross amounts of recognized liabilities	Gross amounts offset in the Statements of Condition	Net amounts of liabilities presented in the Statements of Condition (a)	Derivative assets available for offset	Collateral pledged	Net amount
Derivative liabilities:						
2016 (b)	**$ 144,165**	**$**	**$ 144,165**	**$ (13,963)**	**$ (67,682)**	**$ 62,520**
2015 (b)	100,191		100,191	(15,750)	(68,775)	15,666

(a)

Included in Derivative liabilities on the Consolidated Condensed Statements of Condition. As of June 30, 2016 and 2015, $26.5 million and $9.6 million, respectively, of derivative liabilities (primarily fixed income forward contracts) have been excluded from these tables because they are generally not subject to master netting or similar agreements.

(b) 2016 and 2015 are comprised entirely of interest rate derivative contracts.

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Note 15 Master Netting and Similar Agreements Repurchase, Reverse Repurchase, and Securities Borrowing and Lending Transactions

For repurchase, reverse repurchase and securities borrowing and lending transactions, FHN and each counterparty have the ability to offset all open positions and related collateral in the event of default. Due to the nature of these transactions, the value of the collateral for each transaction approximates the value of the corresponding receivable or payable. For repurchase agreements within FHN s fixed income business, transactions are collateralized by securities which are delivered on the settlement date and are maintained throughout the term of the transaction. For FHN s repurchase agreements through banking activities, securities are typically pledged at the time of the transaction and not released until settlement. For asset positions, the collateral is not included on FHN s Consolidated Condensed Statements of Condition. For liability positions, securities collateral pledged by FHN is generally represented within FHN s trading or available-for-sale securities portfolios.

For this disclosure, FHN considers the impact of master netting and other similar agreements that allow FHN to settle all contracts with a single counterparty on a net basis and to offset the net asset or liability position with the related securities collateral. The application of the collateral cannot reduce the net asset or liability position below zero, and therefore any excess collateral is not reflected in the tables below.

The following table provides a detail of Securities purchased under agreements to resell as presented on the Consolidated Condensed Statements of Condition and collateral pledged by counterparties as of June 30:

				Gross amounts not offset in the Statements of Condition		
(Dollars in thousands)	Gross amounts of recognized assets	Gross amounts offset in the Statements of Condition	Net amounts of assets presented in the Statements of Condition	Offsetting securities sold under agreements to repurchase	Securities collateral (not recognized on FHN s Statements of Condition)	Net amount
Securities purchased under agreements to resell:						
2016	**$ 881,732**	**$**	**$ 881,732**	**$ (2,137)**	**$ (870,795)**	**$ 8,800**
2015	816,991		816,991	(3,605)	(805,178)	8,208

The following table provides a detail of Securities sold under agreements to repurchase as presented on the Consolidated Condensed Statements of Condition and collateral pledged by FHN as of June 30:

				Gross amounts not offset in the Statements of Condition		
(Dollars in thousands)	Gross amounts of recognized liabilities	Gross amounts offset in the Statements of Condition	Net amounts of liabilities presented in the Statements	Offsetting securities purchased under agreements to resell	Securities Collateral	Net amount

			of Condition			
Securities sold under agreements to repurchase:						
2016	**$ 451,129**	**$**	**$ 451,129**	**$ (2,137)**	**$ (448,894)**	**$ 98**
2015	311,760		311,760	(3,605)	(308,088)	67

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Note 15 Master Netting and Similar Agreements Repurchase, Reverse Repurchase, and Securities Borrowing and Lending Transactions (Continued)

Due to the short duration of Securities sold under agreements to repurchase and the nature of collateral involved, the risks associated with these transactions are considered minimal. The following table provides a detail, by collateral type, of the remaining contractual maturity of Securities sold under agreements to repurchase as of June 30:

	June 30, 2016			
(Dollars in thousands)	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Total
Securities sold under agreements to repurchase:				
U.S. treasuries	**$ 28,218**	**$**	**$**	**$ 28,218**
Government agency issued MBS	**308,557**		**100,304**	**408,861**
Government agency issued CMO		**14,050**		**14,050**
Total Securities sold under agreements to repurchase	**$ 336,775**	**$ 14,050**	**$ 100,304**	**$ 451,129**

	June 30, 2015			
(Dollars in thousands)	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Total
Securities sold under agreements to repurchase:				
U.S. treasuries	$ 15,175	$	$	$ 15,175
Government agency issued MBS	93,697			93,697
Government agency issued CMO	190,438	12,450		202,888
Total Securities sold under agreements to repurchase	$ 299,310	$ 12,450	$	$ 311,760

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Note 16 Fair Value of Assets & Liabilities

FHN groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. This hierarchy requires FHN to maximize the use of observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. Each fair value measurement is placed into the proper level based on the lowest level of significant input. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect management s estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models, and similar techniques.

Transfers between fair value levels are recognized at the end of the fiscal quarter in which the associated change in inputs occurs.

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Note 16 Fair Value of Assets & Liabilities (Continued)

Recurring Fair Value Measurements

The following table presents the balance of assets and liabilities measured at fair value on a recurring basis as of June 30, 2016:

	June 30, 2016			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Trading securities fixed income:				
U.S. treasuries	$	$ 98,181	$	$ 98,181
Government agency issued MBS		328,600		328,600
Government agency issued CMO		235,914		235,914
Other U.S. government agencies		110,354		110,354
States and municipalities		75,793		75,793
Trading loans		10,643		10,643
Corporate and other debt		295,322	5	295,327
Equity, mutual funds, and other		5,326		5,326
Total trading securities fixed income		1,160,133	5	1,160,138
Trading securities mortgage banking			2,821	2,821
Loans held-for-sale			25,738	25,738
Securities available-for-sale:				
U.S. treasuries		100		100
Government agency issued MBS		1,946,222		1,946,222
Government agency issued CMO		1,874,816		1,874,816
States and municipalities			1,500	1,500
Equity, mutual funds, and other	25,055			25,055
Total securities available-for-sale	25,055	3,821,138	1,500	3,847,693
Other assets:				
Mortgage servicing rights			1,406	1,406
Deferred compensation assets	31,221			31,221
Derivatives, forwards and futures	21,573			21,573
Derivatives, interest rate contracts		175,416		175,416
Total other assets	52,794	175,416	1,406	229,616
Total assets	$ 77,849	$ 5,156,687	$ 31,470	$ 5,266,006
Trading liabilities fixed income:				
U.S. treasuries	$	$ 549,739	$	$ 549,739

Government agency issued CMO		1,563		1,563
Other U.S. government agencies		25,095		25,095
States and municipalities		1,127		1,127
Corporate and other debt		212,016		212,016
Total trading liabilities fixed income		789,540		789,540
Other liabilities:				
Derivatives, forwards and futures	19,618			19,618
Derivatives, interest rate contracts		144,165		144,165
Derivatives, other		1	6,835	6,836
Total other liabilities	19,618	144,166	6,835	170,619
Total liabilities	$ 19,618	$ 933,706	$ 6,835	$ 960,159

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Note 16 Fair Value of Assets & Liabilities (Continued)

The following table presents the balance of assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

	June 30, 2015			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Trading securities fixed income:				
U.S. treasuries	$	$ 109,998	$	$ 109,998
Government agency issued MBS		327,082		327,082
Government agency issued CMO		146,675		146,675
Other U.S. government agencies		83,416		83,416
States and municipalities		64,597		64,597
Corporate and other debt		393,191	5	393,196
Equity, mutual funds, and other		3,602		3,602
Total trading securities fixed income		1,128,561	5	1,128,566
Trading securities mortgage banking			4,924	4,924
Loans held-for-sale			26,525	26,525
Securities available-for-sale:				
U.S. treasuries		100		100
Government agency issued MBS		830,640		830,640
Government agency issued CMO		2,625,286		2,625,286
Other U.S. government agencies			1,560	1,560
States and municipalities		7,955	1,500	9,455
Equity, mutual funds, and other	25,825			25,825
Total securities available-for-sale	25,825	3,463,981	3,060	3,492,866
Other assets:				
Mortgage servicing rights			2,158	2,158
Deferred compensation assets	27,341			27,341
Derivatives, forwards and futures	5,299			5,299
Derivatives, interest rate contracts		109,929		109,929
Derivatives, other		2		2
Total other assets	32,640	109,931	2,158	144,729
Total assets	$ 58,465	$ 4,702,473	$ 36,672	$ 4,797,610
Trading liabilities fixed income:				
U.S. treasuries	$	$ 406,879	$	$ 406,879
Government agency issued MBS		1,486		1,486

Other U.S. government agencies		25,036		25,036
Corporate and other debt		299,163		299,163
Total trading liabilities fixed income		732,564		732,564
Other liabilities:				
Derivatives, forwards and futures	4,788			4,788
Derivatives, interest rate contracts		100,191		100,191
Derivatives, other		26	4,810	4,836
Total other liabilities	4,788	100,217	4,810	109,815
Total liabilities	$ 4,788	$ 832,781	$ 4,810	$ 842,379

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Note 16 Fair Value of Assets & Liabilities (Continued)

Changes in Recurring Level 3 Fair Value Measurements

The changes in Level 3 assets and liabilities measured at fair value for the three months ended June 30, 2016 and 2015, on a recurring basis are summarized as follows:

	Three Months Ended June 30, 2016				
(Dollars in thousands)	Trading securities	Loans held-for-sale	Securities available-for-sale	Mortgage servicing rights, net	Net derivative liabilities
Balance on April 1, 2016	$ 3,057	$ 26,287	$ 1,500	$ 1,725	$ (4,620)
Total net gains/(losses) included in:					
Net income	55	429		31	(2,514)
Other comprehensive income /(loss)					
Purchases		327			
Issuances					
Sales				(205)	
Settlements	(286)	(1,132)		(145)	299
Net transfers into/(out of) Level 3		(173)(b)			
Balance on June 30, 2016	$ 2,826	$ 25,738	$ 1,500	$ 1,406	$ (6,835)
Net unrealized gains/(losses) included in net income	$ (5)(a)	$ 429(a)	$	$	$ (2,514)(c)

	Three Months Ended June 30, 2015				
(Dollars in thousands)	Trading securities	Loans held-for-sale	Securities available-for-sale	Mortgage servicing rights, net	Net derivative liabilities
Balance on April 1, 2015	$ 5,326	$ 26,700	$ 3,191	$ 2,342	$ (5,005)
Total net gains/(losses) included in:					
Net income	69	248			(107)
Other comprehensive income /(loss)			(14)		
Purchases		324			
Issuances					
Sales					
Settlements	(466)	(329)	(117)	(184)	302
Net transfers into/(out of) Level 3		(418)(b)			

Balance on June 30, 2015	$ 4,929	$ 26,525	$ 3,060	$ 2,158	$ (4,810)
Net unrealized gains/(losses) included in net income	$ 69(a)	$ 248(a)	$	$	$ (107)(c)

(a) Primarily included in mortgage banking income on the Consolidated Condensed Statements of Income.
(b) Transfers out of recurring loans held-for-sale level 3 balances reflect movements out of recurring loans held-for-sale and into real estate acquired by foreclosure (level 3 nonrecurring).
(c) Included in Other expense.

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Note 16 Fair Value of Assets & Liabilities (Continued)

Changes in Recurring Level 3 Fair Value Measurements

The changes in Level 3 assets and liabilities measured at fair value for the six months ended June 30, 2016 and 2015, on a recurring basis are summarized as follows:

	Six Months Ended June 30, 2016				
(Dollars in thousands)	Trading securities	Loans held-for-sale	Securities available-for-sale	Mortgage servicing rights, net	Net derivative liabilities
Balance on January 1, 2016	$ 4,377	$ 27,418	$ 1,500	$ 1,841	$ (4,810)
Total net gains/(losses) included in:					
Net income	202	771		31	(2,623)
Other comprehensive income / (loss)					
Purchases		475			
Issuances					
Sales				(205)	
Settlements	(1,753)	(2,497)		(261)	598
Net transfers into/(out of) Level 3		(429)(b)			
Balance on June 30, 2016	$ 2,826	$ 25,738	$ 1,500	$ 1,406	$ (6,835)
Net unrealized gains/(losses) included in net income	$ 79(a)	$ 771(a)	$	$	$ (2,623)(c)

	Six Months Ended June 30, 2015				
(Dollars in thousands)	Trading securities	Loans held-for-sale	Securities available-for-sale	Mortgage servicing rights, net	Net derivative liabilities
Balance on January 1, 2015	$ 5,642	$ 27,910	$ 3,307	$ 2,517	$ (5,240)
Total net gains/(losses) included in:					
Net income	239	1,390			(164)
Other comprehensive income /(loss)			(28)		
Purchases		1,178			
Issuances					
Sales					
Settlements	(952)	(2,819)	(219)	(359)	594
Net transfers into/(out of) Level 3		(1,134)(b)			

Balance on June 30, 2015	$ 4,929	$ 26,525	$ 3,060	$ 2,158	$ (4,810)
Net unrealized gains/(losses) included in net income	$ 239(a)	$ 1,390(a)	$	$	$ (164)(c)

(a) Primarily included in mortgage banking income on the Consolidated Condensed Statements of Income.
(b) Transfers out of recurring loans held-for-sale level 3 balances reflect movements out of recurring loans held-for-sale and into real estate acquired by foreclosure (level 3 nonrecurring).
(c) Included in Other expense.

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Note 16 Fair Value of Assets & Liabilities (Continued)

Nonrecurring Fair Value Measurements

From time to time, FHN may be required to measure certain other financial assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of LOCOM accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis which were still held on the balance sheet at June 30, 2016 and 2015, respectively, the following tables provide the level of valuation assumptions used to determine each adjustment, the related carrying value, and the fair value adjustments recorded during the respective periods.

	Carrying value at June 30, 2016				Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
(Dollars in thousands)	Level 1	Level 2	Level 3	Total	Net gains/(losses)	Net gains/(losses)
Loans held-for-sale - first mortgages	$	$	$ 721	$ 721	$ 2	$ 7
Loans, net of unearned income (a)			35,314	35,314	353	(4,319)
Real estate acquired by foreclosure (b)			14,150	14,150	(314)	(850)
Other assets (c)			28,588	28,588	(831)	(1,537)
					$ (790)	$ (6,699)

	Carrying value at June 30, 2015				Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
(Dollars in thousands)	Level 1	Level 2	Level 3	Total	Net gains/(losses)	Net gains/(losses)
Loans held-for-sale - first mortgages	$	$	$ 849	$ 849	$	$ 38
Loans, net of unearned income (a)			38,913	38,913	(479)	(1,841)
Real estate acquired by foreclosure (b)			29,109	29,109	(1,284)	(1,660)
Other assets (c)			28,265	28,265	(549)	(944)
					$ (2,312)	$ (4,407)

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

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

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

(c) Represents tax credit investments accounted for under the equity method.

In first quarter 2016, FHN s Regional Banking segment recognized $3.7 million of impairments on long-lived assets associated with efforts to more efficiently utilize its bank branch locations. The affected branch locations represented a mixture of owned and leased sites. The fair values of owned sites were determined using estimated sales prices from appraisals less estimated costs to sell. The fair values of leased sites were determined using a discounted cash flow approach, based on the revised estimated useful lives of the related assets. Both measurement methodologies are considered Level 3 valuations.

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Note 16 Fair Value of Assets & Liabilities (Continued)

Level 3 Measurements

The following tables provide information regarding the unobservable inputs utilized in determining the fair value of level 3 recurring and non-recurring measurements as of June 30, 2016 and 2015:

(Dollars in Thousands)

Level 3 Class	Fair Value at June 30, 2016	Valuation Techniques	Unobservable Input	Values Utilized
Trading securities - mortgage	$ 2,821	Discounted cash flow	Prepayment speeds	38% - 47%
			Discount rate	28% - 68%
Loans held-for-sale - residential real estate	26,459	Discounted cash flow	Prepayment speeds - First mortgage	2% - 20%
			Prepayment speeds - HELOC	5% - 15%
			Foreclosure losses	47% - 58%
			Loss severity trends -First mortgage	5% - 70% of UPB
			Loss severity trends - HELOC	35% - 100% of UPB
			Draw rate - HELOC	5% - 12%
Derivative liabilities, other	6,835	Discounted cash flow	Visa covered litigation resolution amount	$4.4 billion - $5.2 billion
			Probability of resolution scenarios	10% - 30%
			Time until resolution	30 - 60 months
	35,314			0% - 10% of appraisal

Loans, net of unearned income (a)		Appraisals from comparable properties	Marketability adjustments for specific properties	
		Other collateral valuations	Borrowing base certificates adjustment	20% - 50% of gross value
			Financial Statements/Auction values adjustment	0% - 25% of reported value
Real estate acquired by foreclosure (b)	14,150	Appraisals from comparable properties	Adjustment for value changes since appraisal	0% - 10% of appraisal
Other assets (c)	28,588	Discounted cash flow	Adjustments to current sales yields for specific properties	0% - 15% adjustment to yield
		Appraisals from comparable properties	Marketability adjustments for specific properties	0% - 25% of appraisal

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

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

(c) Represents tax credit investments accounted for under the equity method.

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Note 16 Fair Value of Assets & Liabilities (Continued)

(Dollars in Thousands)

Level 3 Class	Fair Value at June 30, 2015	Valuation Techniques	Unobservable Input	Values Utilized
Trading securities - mortgage	$ 4,924	Discounted cash flow	Prepayment speeds	42% - 43%
			Discount rate	5% - 56%
Loans held-for-sale - residential real estate	27,374	Discounted cash flow	Prepayment speeds - First mortgage	2% - 20%
			Prepayment speeds - HELOC	5% - 15%
			Foreclosure Losses	50% - 60%
			Loss severity trends - First mortgage	10% - 70% of UPB
			Loss severity trends - HELOC	35% - 100% of UPB
			Draw Rate - HELOC	5% - 12%
Derivative liabilities, other	4,810	Discounted cash flow	Visa covered litigation resolution amount	$4.5 billion - $5.5 billion
			Probability of resolution scenarios	5% - 25%
			Time until resolution	6 - 42 months
Loans, net of unearned income (a)	38,913	Appraisals from comparable properties	Marketability adjustments for specific properties	0% - 10% of appraisal
				20% - 50% of gross value

		Other collateral valuations	Borrowing base certificates adjustment	
			Financial Statements/Auction Values adjustment	0% - 25% of reported value
Real estate acquired by foreclosure (b)	29,109	Appraisals from comparable properties	Adjustment for value changes since appraisal	0% - 10% of appraisal
Other assets (c)	28,265	Discounted cash flow	Adjustments to current sales yields for specific properties	0% - 15% adjustment to yield
		Appraisals from comparable properties	Marketability adjustments for specific properties	0% - 25% of appraisal

(a) Represents carrying value of loans for which adjustments are required to be based on the appraised value of the collateral less estimated costs to sell. Write-downs on these loans are recognized as part of provision for loan losses.
(b) Represents the fair value of foreclosed properties that were measured subsequent to their initial classification as foreclosed assets. Balance excludes foreclosed real estate related to government insured mortgages.
(c) Represents tax credit investments accounted for under the equity method.

Trading securities-mortgage. Prepayment rates and credit spreads (part of the discount rate) are significant unobservable inputs used in the fair value measurement of FHN s mortgage trading securities which include interest-only strips and principal-only strips. Subordinated bonds were also included in mortgage trading securities prior to their payoff in first quarter 2016. Increases in prepayment rates and credit spreads in isolation would result in significantly lower fair value measurements for the associated assets. Conversely, decreases in prepayment rates and credit spreads in isolation would result in significantly higher fair value measurements for the associated assets. Generally, when market interest rates decline and other factors favorable to prepayments occur, there is a corresponding increase in prepayment rates as customers are expected to refinance existing mortgages under more favorable interest rate terms. Generally, changes in discount rates directionally mirror the changes in market interest rates. FHN s Corporate Accounting Department monitors changes in the fair value of these securities monthly.

Loans held-for-sale. Foreclosure losses and prepayment rates are significant unobservable inputs used in the fair value measurement of FHN s residential real estate loans held-for-sale. Loss severity trends are also assessed to evaluate the reasonableness of fair value estimates resulting from discounted cash flows methodologies as well as to estimate fair value for newly repurchased loans and loans that are near foreclosure. Significant increases (decreases) in any of these inputs in isolation would result in significantly lower (higher) fair value measurements. Draw rates are an additional significant unobservable input for HELOCs. Increases (decreases) in the draw rate estimates for HELOCs would increase (decrease) their fair value. All observable and unobservable inputs are re-assessed quarterly. Fair value measurements are reviewed at least quarterly by FHN s Corporate Accounting Department.

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Note 16 Fair Value of Assets & Liabilities (Continued)

Derivative liabilities. In conjunction with the sales of portions of its Visa Class B shares, FHN and the purchaser entered into derivative transactions whereby FHN will make, or receive, cash payments whenever the conversion ratio of the Visa Class B shares into Visa Class A shares is adjusted. FHN uses a discounted cash flow methodology in order to estimate the fair value of FHN s derivative liabilities associated with its prior sales of Visa Class B shares. The methodology includes estimation of both the resolution amount for Visa s Covered Litigation matters as well as the length of time until the resolution occurs. Significant increases (decreases) in either of these inputs in isolation would result in significantly higher (lower) fair value measurements for the derivative liabilities. Additionally, FHN performs a probability weighted multiple resolution scenario to calculate the estimated fair value of these derivative liabilities. Assignment of higher (lower) probabilities to the larger potential resolution scenarios would result in an increase (decrease) in the estimated fair value of the derivative liabilities. Since this estimation process requires application of judgment in developing significant unobservable inputs used to determine the possible outcomes and the probability weighting assigned to each scenario, these derivatives have been classified within Level 3 in fair value measurements disclosures. The valuation inputs and process are discussed with senior and executive management when significant events affecting the estimate of fair value occur. Inputs are compared to information obtained from the public issuances and filings of Visa, Inc. as well as public information released by other participants in the applicable litigation matters.

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

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

Fair Value Option

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

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

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Note 16 Fair Value of Assets & Liabilities (Continued)

The following tables reflect the differences between the fair value carrying amount of residential real estate loans held-for-sale measured at fair value in accordance with management s election and the aggregate unpaid principal amount FHN is contractually entitled to receive at maturity.

	June 30, 2016		
(Dollars in thousands)	Fair value carrying amount	Aggregate unpaid principal	Fair value carrying amount less aggregate unpaid principal
Residential real estate loans held-for-sale reported at fair value:			
Total loans	$ 25,738	$ 39,202	$ (13,464)
Nonaccrual loans	6,923	13,837	(6,914)
Loans 90 days or more past due and still accruing	136	214	(78)

	June 30, 2015		
(Dollars in thousands)	Fair value carrying amount	Aggregate unpaid principal	Fair value carrying amount less aggregate unpaid principal
Residential real estate loans held-for-sale reported at fair value:			
Total loans	$ 26,525	$ 40,577	$ (14,052)
Nonaccrual loans	6,238	12,316	(6,078)
Loans 90 days or more past due and still accruing	1,622	2,056	(434)

Assets and liabilities accounted for under the fair value election are initially measured at fair value with subsequent changes in fair value recognized in earnings. Such changes in the fair value of assets and liabilities for which FHN elected the fair value option are included in current period earnings with classification in the income statement line item reflected in the following table:

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Changes in fair value included in net income:				
Mortgage banking noninterest income				
Loans held-for-sale	**$ 429**	$ 248	**$ 771**	$ 1,390

For the three months ended June 30, 2016, and 2015, the amounts for residential real estate loans held-for-sale include gains of $.2 million and $.3 million, respectively, in pretax earnings that are attributable to changes in instrument-specific credit risk. For the six months ended June 30, 2016, and 2015, the amounts for loans held-for-sale include gains of $.3 million and $.7 million, respectively, in pretax earnings that are attributable to changes in instrument-specific credit risk. The portion of the fair value adjustments related to credit risk was determined based on estimated default rates and estimated loss severities. Interest income on residential real estate 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.

Determination of Fair Value

In accordance with ASC 820-10-35, fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following describes the assumptions and methodologies used to estimate the fair value of financial instruments recorded at fair value in the Consolidated Condensed Statements of Condition and for estimating the fair value of financial instruments for which fair value is disclosed under ASC 825-10-50.

Short-term financial assets. Federal funds sold, securities purchased under agreements to resell, and interest bearing deposits with other financial institutions and the Federal Reserve are carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

Trading securities and trading liabilities. Trading securities and trading liabilities are recognized at fair value through current earnings. Trading inventory held for broker-dealer operations is included in trading securities and trading liabilities. Broker-dealer long positions are valued at bid price in the bid-ask spread. Short positions are valued at the ask price. Inventory positions are valued using observable inputs including current market transactions, LIBOR and U.S. treasury curves, credit spreads, and consensus prepayment speeds. Trading loans are valued using observable inputs including current market transactions, swap rates, mortgage rates, and consensus prepayment speeds.

Note 16 Fair Value of Assets & Liabilities (Continued)

Trading securities also include retained interests in prior securitizations that qualify as financial assets, which include interest-only strips and principal-only strips. Subordinated bonds were included in mortgage trading securities prior to payoff in first quarter 2016. FHN uses inputs including yield curves, credit spreads, and prepayment speeds to determine the fair value of interest-only and principal-only strips. Subordinated bonds are bonds with junior priority and were valued using an internal model which included contractual terms, frequency and severity of loss (credit spreads), prepayment speeds of the underlying collateral, and the yield that a market participant would require.

Securities available-for-sale. Securities available-for-sale includes the investment portfolio accounted for as available-for-sale under ASC 320-10-25, federal bank stock holdings, and short-term investments in mutual funds. Valuations of available-for-sale securities are performed using observable inputs obtained from market transactions in similar securities. Typical inputs include LIBOR and U.S. treasury curves, consensus prepayment estimates, and credit spreads. When available, broker quotes are used to support these valuations. Prior to disposition in fourth quarter 2015, certain government agency debt obligations with limited trading activity were valued using a discounted cash flow model that incorporated a combination of observable and unobservable inputs. Primary observable inputs included contractual cash flows and the treasury curve. Significant unobservable inputs included estimated trading spreads and estimated prepayment speeds.

Investments in the stock of the Federal Reserve Bank and Federal Home Loan Banks are recognized at historical cost in the Consolidated Condensed Statements of Condition which is considered to approximate fair value. Short-term investments in mutual funds are measured at the funds reported closing net asset values. Investments in equity securities are valued using quoted market prices.

Securities held-to-maturity. Securities held-to-maturity reflects debt securities for which management has the positive intent and ability to hold to maturity. To the extent possible, valuations of held-to-maturity securities are performed using observable inputs obtained from market transactions in similar securities. Typical inputs include LIBOR and U.S. treasury curves and credit spreads. Debt securities with limited trading activity are valued using a discounted cash flow model that incorporates a combination of observable and unobservable inputs. Primary observable inputs include contractual cash flows, the treasury curve and credit spreads from similar instruments. Significant unobservable inputs include estimated credit spreads for individual issuers and instruments as well as prepayment speeds, as applicable.

Loans held-for-sale. Residential real estate loans held-for-sale are valued using current transaction prices and/or values on similar assets when available. Uncommitted bids may be adjusted based on other available market information. For all other loans FHN determines the fair value of residential real estate loans held-for-sale using a discounted cash flow model which incorporates both observable and unobservable inputs. Inputs include current mortgage rates for similar products, estimated prepayment rates, foreclosure losses, and various loan performance measures (delinquency, LTV, credit score). Adjustments for delinquency and other differences in loan characteristics are typically reflected in the model s discount rates. Loss severity trends and the value of underlying collateral are also considered in assessing the appropriate fair value for severely delinquent loans and loans in foreclosure. The valuation of HELOCs also incorporates estimates of loan draw rates as well as estimated cancellation rates for loans expected to become delinquent.

Loans held-for-sale also include loans made by the Small Business Administration (SBA), which are accounted for at LOCOM. The fair value of SBA loans is determined using an expected cash flow model that utilizes observable inputs

such as the spread between LIBOR and prime rates, consensus prepayment speeds, and the treasury curve. The fair value of other non-residential real estate loans held-for-sale is approximated by their carrying values based on current transaction values.

Loans, net of unearned income. Loans, net of unearned income are recognized at the amount of funds advanced, less charge-offs and an estimation of credit risk represented by the allowance for loan losses. The fair value estimates for disclosure purposes differentiate loans based on their financial characteristics, such as product classification, vintage, loan category, pricing features, and remaining maturity.

The fair value of floating rate loans is estimated through comparison to recent market activity in loans of similar product types, with adjustments made for differences in loan characteristics. In situations where market pricing inputs are not available, fair value is considered to approximate book value due to the monthly repricing for commercial and consumer loans, with the exception of floating rate 1-4 family residential mortgage loans which reprice annually and will lag movements in market rates. The fair value for floating rate 1-4 family mortgage loans is calculated by discounting future cash flows to their present value. Future cash flows are discounted to their present value by using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same time period. Prepayment assumptions based on historical prepayment speeds and industry speeds for similar loans have been applied to the floating rate 1-4 family residential mortgage portfolio.

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Note 16 Fair Value of Assets & Liabilities (Continued)

The fair value of fixed rate loans is estimated through comparison to recent market activity in loans of similar product types, with adjustments made for differences in loan characteristics. In situations where market pricing inputs are not available, fair value is estimated by discounting future cash flows to their present value. Future cash flows are discounted to their present value by using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same time period. Prepayment assumptions based on historical prepayment speeds and industry speeds for similar loans have been applied to the fixed rate mortgage and installment loan portfolios.

For all loan portfolio classes, adjustments are made to reflect liquidity or illiquidity of the market. Such adjustments reflect discounts that FHN believes are consistent with what a market participant would consider in determining fair value given current market conditions.

Individually impaired loans are measured using either a discounted cash flow methodology or the estimated fair value of the underlying collateral less costs to sell, if the loan is considered collateral-dependent. In accordance with accounting standards, the discounted cash flow analysis utilizes the loan s effective interest rate for discounting expected cash flow amounts. Thus, this analysis is not considered a fair value measurement in accordance with ASC 820. However, the results of this methodology are considered to approximate fair value for the applicable loans. Expected cash flows are derived from internally-developed inputs primarily reflecting expected default rates on contractual cash flows. For loans measured using the estimated fair value of collateral less costs to sell, fair value is estimated using appraisals of the collateral. Collateral values are monitored and additional write-downs are recognized if it is determined that the estimated collateral values have declined further. Estimated costs to sell are based on current amounts of disposal costs for similar assets. Carrying value is considered to reflect fair value for these loans.

Mortgage servicing rights. FHN recognizes all classes of MSR at fair value. In third quarter 2013, FHN agreed to sell substantially all of its remaining legacy mortgage servicing. Since that time FHN has used the price in the definitive agreement, as adjusted for the portion of pricing that was not specific to the MSR, as a third-party pricing source in the valuation of the MSR.

Derivative assets and liabilities. The fair value for forwards and futures contracts is based on current transactions involving identical securities. Futures contracts are exchange-traded and thus have no credit risk factor assigned as the risk of non-performance is limited to the clearinghouse used.

Valuations of other derivatives (primarily interest rate related swaps, swaptions, caps, and collars) are based on inputs observed in active markets for similar instruments. Typical inputs include the LIBOR curve, Overnight Indexed Swap (OIS) curve, option volatility, and option skew. In measuring the fair value of these derivative assets and liabilities, FHN has elected to consider credit risk based on the net exposure to individual counterparties. Credit risk is mitigated for these instruments through the use of mutual margining and master netting agreements as well as collateral posting requirements. Any remaining credit risk related to interest rate derivatives is considered in determining fair value through evaluation of additional factors such as customer loan grades and debt ratings. Foreign currency related derivatives also utilize observable exchange rates in the determination of fair value. The determination of fair value for FHN s derivative liabilities associated with its prior sales of Visa Class B shares are classified within Level 3 in the fair value measurements disclosure as previously discussed in the unobservable inputs discussion.

Real estate acquired by foreclosure. Real estate acquired by foreclosure primarily consists of properties that have been acquired in satisfaction of debt. These properties are carried at the lower of the outstanding loan amount or

estimated fair value less estimated costs to sell the real estate. Estimated fair value is determined using appraised values with subsequent adjustments for deterioration in values that are not reflected in the most recent appraisal.

Nonearning assets. For disclosure purposes, nonearning financial assets include cash and due from banks, accrued interest receivable, and fixed income receivables. Due to the short-term nature of cash and due from banks, accrued interest receivable, and fixed income receivables, the fair value is approximated by the book value.

Other assets. For disclosure purposes, other assets consist of tax credit investments and deferred compensation assets that are considered financial assets. Tax credit investments accounted for under the equity method are written down to estimated fair value quarterly based on the estimated value of the associated tax credits which incorporates estimates of required yield for hypothetical investors. The fair value of all other tax credit investments is estimated using recent transaction information with adjustments for differences in individual investments. Deferred compensation assets are recognized at fair value, which is based on quoted prices in active markets.

Defined maturity deposits. The fair value of these deposits is estimated by discounting future cash flows to their present value. Future cash flows are discounted by using the current market rates of similar instruments applicable to the remaining maturity. For disclosure purposes, defined maturity deposits include all certificates of deposit and other time deposits.

Undefined maturity deposits. In accordance with ASC 825, the fair value of these deposits is approximated by the book value. For the purpose of this disclosure, undefined maturity deposits include demand deposits, checking interest accounts, savings accounts, and money market accounts.

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Note 16 Fair Value of Assets & Liabilities (Continued)

Short-term financial liabilities. The fair value of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings are approximated by the book value. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

Term borrowings. The fair value of term borrowings is based on quoted market prices or dealer quotes for the identical liability when traded as an asset. When pricing information for the identical liability is not available, relevant prices for similar debt instruments are used with adjustments being made to the prices obtained for differences in characteristics of the debt instruments. If no relevant pricing information is available, the fair value is approximated by the present value of the contractual cash flows discounted by the investor s yield which considers FHN s and FTBNA s debt ratings.

Other noninterest-bearing liabilities. For disclosure purposes, other noninterest-bearing financial liabilities include accrued interest payable and fixed income payables. Due to the short-term nature of these liabilities, the book value is considered to approximate fair value.

Loan commitments. Fair values of these commitments are based on fees charged to enter into similar agreements taking into account the remaining terms of the agreements and the counterparties credit standing.

Other commitments. Fair values of these commitments are based on fees charged to enter into similar agreements.

The following fair value estimates are determined as of a specific point in time utilizing various assumptions and estimates. The use of assumptions and various valuation techniques, as well as the absence of secondary markets for certain financial instruments, reduces the comparability of fair value disclosures between financial institutions. Due to market illiquidity, the fair values for loans, net of unearned income, loans held-for-sale, and term borrowings as of June 30, 2016 and 2015, involve the use of significant internally-developed pricing assumptions for certain components of these line items. The assumptions and valuations utilized for this disclosure are considered to reflect inputs that market participants would use in transactions involving these instruments as of the measurement date. The valuations of legacy assets, particularly consumer loans within the non-strategic segment and TRUP loans, are influenced by changes in economic conditions since origination and risk perceptions of the financial sector. These considerations affect the estimate of a potential acquirer s cost of capital and cash flow volatility assumptions from these assets and the resulting fair value measurements may depart significantly from our internal estimates of the intrinsic value of these assets.

Assets and liabilities that are not financial instruments have not been included in the following table such as the value of long-term relationships with deposit and trust customers, premises and equipment, goodwill and other intangibles, deferred taxes, and certain other assets and other liabilities. Additionally, these measurements are solely for financial instruments as of the measurement date and do not consider the earnings potential of our various business lines. Accordingly, the total of the fair value amounts does not represent, and should not be construed to represent, the underlying value of the Company.

The following tables summarize the book value and estimated fair value of financial instruments recorded in the Consolidated Condensed Statements of Condition as well as unfunded loan commitments and stand by and other commitments as of June 30, 2016 and 2015.

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Note 16 Fair Value of Assets & Liabilities (Continued)

	June 30, 2016				
		Fair Value			
(Dollars in thousands)	Book Value	Level 1	Level 2	Level 3	Total
Assets:					
Loans, net of unearned income and allowance for loan losses					
Commercial:					
Commercial, financial and industrial	$ 11,098,473	$	$	$ 11,003,089	$ 11,003,089
Commercial real estate	1,939,148			1,915,942	1,915,942
Consumer:					
Consumer real estate	4,581,698			4,424,739	4,424,739
Permanent mortgage	421,414			391,879	391,879
Credit card & other	348,797			350,036	350,036
Total loans, net of unearned income and allowance for loan losses	18,389,530			18,085,685	18,085,685
Short-term financial assets:					
Interest-bearing cash	321,743	321,743			321,743
Federal funds sold	40,570		40,570		40,570
Securities purchased under agreements to resell	881,732		881,732		881,732
Total short-term financial assets	1,244,045	321,743	922,302		1,244,045
Trading securities (a)	1,162,959		1,160,133	2,826	1,162,959
Loans held-for-sale	117,976		5,478	112,498	117,976
Securities available-for-sale (a) (b)	4,009,243	25,055	3,821,138	163,050	4,009,243
Securities held-to-maturity	14,333			15,101	15,101
Derivative assets (a)	196,989	21,573	175,416		196,989
Other assets:					
Tax credit investments	90,053			83,506	83,506
Deferred compensation assets	31,221	31,221			31,221
Total other assets	121,274	31,221		83,506	114,727
Nonearning assets:					
Cash & due from banks	283,648	283,648			283,648
Fixed income receivables	219,939		219,939		219,939
Accrued interest receivable	55,746		55,746		55,746
Total nonearning assets	559,333	283,648	275,685		559,333
Total assets	$ 25,815,682	$ 683,240	$ 6,360,152	$ 18,462,666	$ 25,506,058
Liabilities:					
Deposits:					

Defined maturity	$ 1,264,635	$	$ 1,274,663	$	$ 1,274,663
Undefined maturity	19,365,542		19,365,542		19,365,542
Total deposits	20,630,177		20,640,205		20,640,205
Trading liabilities (a)	789,540		789,540		789,540
Short-term financial liabilities:					
Federal funds purchased	508,669		508,669		508,669
Securities sold under agreements to repurchase	451,129		451,129		451,129
Other short-term borrowings	543,033		543,033		543,033
Total short-term financial liabilities	1,502,831		1,502,831		1,502,831
Term borrowings:					
Real estate investment trust-preferred	45,998			49,350	49,350
Term borrowings - new market tax credit investment	18,000				