FIRST HORIZON NATIONAL CORP
Form 10-Q
November 07, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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	**(IRS Employer**
incorporation of organization)	**Identification No.)**
165 MADISON AVENUE	
MEMPHIS, TENNESSEE	**38103**
(Address of principal executive office)	**(Zip Code)**

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	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 No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding on September 30, 2016
Common Stock, $.625 par value	**233,234,592**

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FIRST HORIZON NATIONAL CORPORATION

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PART I.

FINANCIAL INFORMATION

Item 1. Financial Statements

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

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CONSOLIDATED CONDENSED STATEMENTS OF CONDITION

	First Horizon National Corporation (Unaudited)		
	September 30		December 31
(Dollars in thousands, except per share amounts)	**2016**	2015	2015
Assets:			
Cash and due from banks	**$ 327,639**	$ 256,342	$ 300,811
Federal funds sold	**27,097**	64,438	114,479
Securities purchased under agreements to resell (Note 15)	**802,815**	793,098	615,773
Total cash and cash equivalents	**1,157,551**	1,113,878	1,031,063
Interest-bearing cash	**219,834**	596,689	602,836
Trading securities	**1,320,535**	1,229,180	881,450
Loans held-for-sale (a)	**155,215**	124,308	126,342
Securities available-for-sale (Note 3)	**4,027,594**	3,673,641	3,929,846
Securities held-to-maturity (Note 3)	**14,340**	4,313	14,320
Loans, net of unearned income (Note 4) (b)	**19,555,787**	16,725,492	17,686,502
Less: Allowance for loan losses (Note 5)	**201,557**	210,814	210,242
Total net loans	**19,354,230**	16,514,678	17,476,260
Goodwill (Note 6)	**191,371**	145,932	191,307
Other intangible assets, net (Note 6)	**22,317**	25,624	26,215
Fixed income receivables	**91,997**	83,547	63,660
Premises and equipment, net (September 30, 2016 includes $7.8 million classified as held-for-sale)	**279,178**	269,332	275,619
Real estate acquired by foreclosure (c)	**18,945**	35,332	33,063
Derivative assets (Note 14)	**160,736**	152,548	104,365
Other assets	**1,435,379**	1,417,071	1,436,291
Total assets	**$ 28,449,222**	$ 25,386,073	$ 26,192,637
Liabilities and equity:			
Deposits:			
Savings	**$ 8,753,115**	$ 7,554,338	$ 7,811,191
Time deposits	**732,561**	743,158	788,487
Other interest-bearing deposits	**5,605,734**	4,885,601	5,388,526
Certificates of deposit $100,000 and more	**592,518**	290,738	443,389
Interest-bearing	**15,683,928**	13,473,835	14,431,593
Noninterest-bearing	**5,890,252**	5,391,385	5,535,885
Total deposits	**21,574,180**	18,865,220	19,967,478

Federal funds purchased	**538,284**	520,992	464,166
Securities sold under agreements to repurchase (Note 15)	**341,998**	332,329	338,133
Trading liabilities	**702,226**	788,563	566,019
Other short-term borrowings	**792,736**	99,887	137,861
Term borrowings	**1,065,651**	1,339,940	1,312,677
Fixed income payables	**68,897**	95,346	23,072
Derivative liabilities (Note 14)	**144,829**	140,965	108,339
Other liabilities	**475,839**	622,586	635,306
Total liabilities	**25,704,640**	22,805,828	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 September 30, 2016, September 30, 2015, and December 31, 2015)	**95,624**	95,624	95,624
Common stock - $.625 par value (shares authorized - 400,000,000; shares issued - 233,234,592 on September 30, 2016; 234,237,439 on September 30, 2015; and 238,586,637 on December 31, 2015)	**145,772**	146,398	149,117
Capital surplus	**1,376,319**	1,377,731	1,439,303
Undivided profits	**992,264**	841,737	874,303
Accumulated other comprehensive loss, net (Note 8)	**(160,828)**	(176,676)	(214,192)
Total First Horizon National Corporation Shareholders Equity	**2,449,151**	2,284,814	2,344,155
Noncontrolling interest	**295,431**	295,431	295,431
Total equity	**2,744,582**	2,580,245	2,639,586
Total liabilities and equity	**$ 28,449,222**	$ 25,386,073	$ 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) September 30, 2016 and 2015 and December 31, 2015 include $17.2 million, $21.7 million and $22.4 million, respectively, of held-for-sale consumer mortgage loans secured by residential real estate in process of foreclosure.
(b) September 30, 2016 and 2015 and December 31, 2015 include $30.3 million, $30.7 million and $29.7 million, respectively, of held-to-maturity consumer mortgage loans secured by residential real estate properties in process of foreclosure.
(c) September 30, 2016 and 2015 and December 31, 2015 include $9.7 million, $15.6 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 September 30		Nine Months Ended September 30	
(Dollars and shares in thousands except per share data, unless otherwise noted) (Unaudited)	**2016**	2015	**2016**	2015
Interest income:				
Interest and fees on loans	**$ 174,039**	$ 150,555	**$ 495,516**	$ 447,735
Interest on investment securities available-for-sale	**23,655**	23,233	**72,082**	69,355
Interest on investment securities held-to-maturity	**197**	66	**592**	198
Interest on loans held-for-sale	**1,445**	1,311	**3,904**	4,152
Interest on trading securities	**6,793**	8,056	**22,564**	26,108
Interest on other earning assets	**843**	466	**3,354**	1,237
Total interest income	**206,972**	183,687	**598,012**	548,785
Interest expense:				
Interest on deposits:				
Savings	**4,939**	2,785	**13,275**	9,062
Time deposits	**1,117**	1,230	**3,377**	3,986
Other interest-bearing deposits	**2,592**	1,118	**7,422**	3,179
Certificates of deposit $100,000 and more	**1,379**	756	**3,916**	2,468
Interest on trading liabilities	**3,331**	4,258	**11,152**	11,942
Interest on short-term borrowings	**1,254**	664	**3,585**	2,436
Interest on term borrowings	**7,165**	9,314	**21,752**	28,644
Total interest expense	**21,777**	20,125	**64,479**	61,717
Net interest income	**185,195**	163,562	**533,533**	487,068
Provision for loan losses	**4,000**	1,000	**11,000**	8,000
Net interest income after provision for loan losses	**181,195**	162,562	**522,533**	479,068
Noninterest income:				
Fixed income	**71,748**	51,804	**216,638**	169,664
Deposit transactions and cash management	**27,221**	28,911	**81,049**	83,892
Brokerage, management fees and commissions	**10,828**	11,620	**31,908**	35,475
Trust services and investment management	**6,885**	6,590	**20,674**	20,704
Bankcard income	**6,260**	5,561	**18,077**	16,631
Bank-owned life insurance	**3,997**	4,135	**11,129**	10,988
Other service charges	**3,004**	2,968	**8,713**	8,859
Insurance commissions	**1,262**	608	**2,301**	1,858
Equity securities gains/(losses), net (Note 3)	**(200)**	(345)	**(181)**	(61)

Debt securities gains/(losses), net (Note 3)			**1,654**	
All other income and commissions (Note 7)	**17,540**	13,251	**36,402**	37,083
Total noninterest income	**148,545**	125,103	**428,364**	385,093
Adjusted gross income after provision for loan losses	**329,740**	287,665	**950,897**	864,161
Noninterest expense:				
Employee compensation, incentives, and benefits	**145,103**	116,219	**425,624**	375,633
Occupancy	**12,722**	13,282	**38,062**	37,264
Operations services	**10,518**	10,130	**30,939**	29,500
Computer software	**10,400**	11,010	**33,213**	33,292
Equipment rentals, depreciation, and maintenance	**6,085**	7,093	**19,426**	22,296
Advertising and public relations	**6,065**	4,832	**15,519**	13,914
FDIC premium expense	**5,721**	4,529	**15,490**	12,929
Professional fees	**4,859**	5,139	**14,342**	14,063
Legal fees	**4,750**	3,626	**15,520**	11,686
Communications and courier	**3,883**	4,054	**10,672**	11,731
Other insurance and taxes	**2,625**	3,283	**8,952**	10,067
Contract employment and outsourcing	**2,443**	3,414	**7,365**	11,335
Amortization of intangible assets	**1,299**	1,298	**3,898**	3,894
Foreclosed real estate	**815**	431	**125**	1,629
Repurchase and foreclosure provision	**(218)**		**(31,618)**	
All other expense (Note 7)	**16,488**	27,096	**79,778**	220,818
Total noninterest expense	**233,558**	215,436	**687,307**	810,051
Income/(loss) before income taxes	**96,182**	72,229	**263,590**	54,110
Provision/(benefit) for income taxes	**28,547**	8,897	**82,802**	8,226
Net income/(loss)	**$ 67,635**	$ 63,332	**$ 180,788**	$ 45,884
Net income attributable to noncontrolling interest	**2,883**	2,977	**8,586**	8,586
Net income/(loss) attributable to controlling interest	**$ 64,752**	$ 60,355	**$ 172,202**	$ 37,298
Preferred stock dividends	**1,550**	1,550	**4,650**	4,650
Net income/(loss) available to common shareholders	**$ 63,202**	$ 58,805	**$ 167,552**	$ 32,648
Basic earnings/(loss) per share (Note 9)	**$ 0.27**	$ 0.25	**$ 0.72**	$ 0.14
Diluted earnings/(loss) per share (Note 9)	**$ 0.27**	$ 0.25	**$ 0.71**	$ 0.14
Weighted average common shares (Note 9)	**231,856**	233,111	**232,690**	232,910
Diluted average common shares (Note 9)	**234,092**	235,058	**234,775**	234,838
Cash dividends declared per common share	**$ 0.07**	$ 0.06	**$ 0.21**	$ 0.18

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 September 30		Nine Months Ended September 30	
(Dollars in thousands) (Unaudited)	**2016**	2015	**2016**	2015
Net income/(loss)	**$ 67,635**	$ 63,332	**$ 180,788**	$ 45,884
Other comprehensive income/(loss), net of tax:				
Net unrealized gains/(losses) on securities available-for-sale	**(7,887)**	15,427	**47,310**	13,331
Net unrealized gains/(losses) on cash flow hedges	**(1,570)**		**3,121**	
Net unrealized gains/(losses) on pension and other postretirement plans	**963**	(3,855)	**2,933**	(1,761)
Other comprehensive income/(loss)	**(8,494)**	11,572	**53,364**	11,570
Comprehensive income/(loss)	**59,141**	74,904	**234,152**	57,454
Comprehensive income attributable to noncontrolling interest	**2,883**	2,977	**8,586**	8,586
Comprehensive income/(loss) attributable to controlling interest	**$ 56,258**	$ 71,927	**$ 225,566**	$ 48,868
Income tax expense/(benefit) of items included in Other comprehensive income/(loss):				
Net unrealized gains/(losses) on securities available-for-sale	**$ (4,902)**	$ 9,548	**$ 29,402**	$ 8,228
Net unrealized gains/(losses) on cash flow hedges	**(975)**		**1,940**	
Net unrealized gains/(losses) on pension and other postretirement plans	**598**	(2,411)	**1,823**	(1,093)

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
ance, January 1	**$ 2,344,155**	**$ 295,431**	**$ 2,639,586**	$ 2,286,159	$ 295,431	$ 2,581,59
t income/(loss)	**172,202**	**8,586**	**180,788**	37,298	8,586	45,88
ner comprehensive income/(loss) (a)	**53,364**		**53,364**	11,570		11,57
mprehensive income/(loss)	**225,566**	**8,586**	**234,152**	48,868	8,586	57,45
sh dividends declared:						
ferred stock ($4,650 per share for the nine months led September 30, 2016 and 2015, respectively)	**(4,650)**		**(4,650)**	(4,650)		(4,65
mmon stock ($.21 and $.18 per share for the nine nths ended September 30, 2016 and 2015, respectively)	**(49,578)**		**(49,578)**	(42,496)		(42,49
mmon stock repurchased (b)	**(96,801)**		**(96,801)**	(20,052)		(20,05
mmon stock issued for:						
ck options and restricted stock - equity awards	**18,710**		**18,710**	6,577		6,57
ck-based compensation expense	**12,378**		**12,378**	9,952		9,95
vidends declared - noncontrolling interest of subsidiary ferred stock		**(8,586)**	**(8,586)**		(8,586)	(8,58
benefit/(benefit reversal) - stock based compensation pense	**(629)**		**(629)**	456		45
lance, September 30	**$ 2,449,151**	**$ 295,431**	**$ 2,744,582**	$ 2,284,814	$ 295,431	$ 2,580,24

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 $93.5 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	
	Nine Months Ended September 30	
(Dollars in thousands) (Unaudited)	**2016**	2015
Operating Activities		
Net income/(loss)	**$ 180,788**	$ 45,884
Adjustments to reconcile net income/(loss) to net cash provided/(used) by operating activities:		
Provision for loan losses	**11,000**	8,000
Provision/(benefit) for deferred income taxes	**68,100**	19,002
Depreciation and amortization of premises and equipment	**24,032**	27,187
Amortization of intangible assets	**3,898**	3,894
Net other amortization and accretion	**19,536**	11,774
Net (increase)/decrease in derivatives	**1,330**	(5,854)
Repurchase and foreclosure provision	**(31,618)**	
Fair value adjustment to foreclosed real estate	**1,561**	2,366
Litigation and regulatory matters	**25,285**	10,943
Stock-based compensation expense	**12,378**	9,952
(Tax benefit)/benefit reversal - stock based compensation expense	**629**	(456)
Equity securities (gains)/losses, net	**181**	61
Debt securities (gains)/losses, net	**(1,654)**	
Gain on extinguishment of debt		(5,794)
Net (gains)/losses on sale/disposal of fixed assets	**2,519**	(2,461)
Loans held-for-sale:		
Purchases	**(73,404)**	(3,080)
Gross proceeds from settlements and sales	**43,653**	20,387
(Gain)/loss due to fair value adjustments and other	**878**	(330)
Qualified pension plan contribution	**(165,000)**	
Net (increase)/decrease in:		
Trading securities	**(441,205)**	(36,200)
Fixed income receivables	**(28,337)**	(41,059)
Interest receivable	**(2,014)**	1,345
Other assets	**(69,855)**	(88,908)
Net increase/(decrease) in:		
Trading liabilities	**136,207**	194,249
Fixed income payables	**45,825**	77,189
Interest payable	**505**	1,363
Other liabilities	**(24,795)**	(36,823)
Total adjustments	**(440,365)**	166,747
Net cash provided/(used) by operating activities	**(259,577)**	212,631
Investing Activities		
Available-for-sale securities:		

Sales		**1,543**		284
Maturities		**526,112**		506,537
Purchases		**(557,216)**		(609,511)
Premises and equipment:				
Sales		**9,636**		40,369
Purchases		**(41,304)**		(24,945)
Net (increase)/decrease in:				
Loans (a)		**(1,874,562)**		(517,622)
Interests retained from securitizations classified as trading securities		**2,120**		1,411
Interest-bearing cash		**383,002**		1,025,278
Net cash provided/(used) by investing activities		**(1,550,669)**		421,801
Financing Activities				
Common stock:				
Stock options exercised		**18,710**		6,860
Cash dividends paid		**(47,144)**		(39,978)
Repurchase of shares (b)		**(96,801)**		(20,052)
Tax benefit/(benefit reversal) - stock based compensation expense		**(629)**		456
Cash dividends paid - preferred stock - noncontrolling interest		**(8,523)**		(8,555)
Cash dividends paid - Series A preferred stock		**(4,650)**		(4,650)
Term borrowings:				
Issuance		**100**		
Payments/maturities		**(264,599)**		(519,545)
Net increase/(decrease) in:				
Deposits		**1,607,412**		796,781
Short-term borrowings		**732,858**		(803,276)
Net cash provided/(used) by financing activities		**1,936,734**		(591,959)
Net increase/(decrease) in cash and cash equivalents		**126,488**		42,473
Cash and cash equivalents at beginning of period		**1,031,063**		1,071,405
Cash and cash equivalents at end of period	**$**	**1,157,551**	$	1,113,878
Supplemental Disclosures				
Total interest paid	**$**	**63,337**	$	59,609
Total taxes paid		**11,580**		14,896
Total taxes refunded		**3,854**		7,012
Transfer from loans to other real estate owned		**7,291**		9,772

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

See accompanying notes to consolidated condensed financial statements.

(a) 2016 includes $537.4 million UPB of loans acquired from GE Capital.
(b) 2016 and 2015 include $93.5 million and $15.8 million, respectively, repurchased under share repurchase programs.

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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.

(Dollars in thousands)	As of September 30 2015	As of December 31 2015	As of December 31 2014
Increase/(decrease) to previously reported Consolidated Statements of Condition amounts			
Other assets	$ (1,246)	$ (2,499)	$ (2,764)
Term Borrowings	(1,246)	(2,499)	(2,764)

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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-use

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Note 1 Financial Information (Continued)

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. Transition to the new guidance will be accomplished through a combination of retrospective, cumulative-effect adjustment to equity and prospective methodologies. FHN currently estimates that adoption of ASU 2016-09 will result in an increase in tax provision in 2017 between $1.0 million and $2.0 million. The effects on earnings per share calculations and elections to account for forfeitures as incurred are not anticipated to be significant.

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 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

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Note 1 Financial Information (Continued)

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

ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in fiscal years beginning after December 15, 2018. FHN 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.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, which clarifies multiple cash flow presentation issues including providing guidance as to classification on the cash flow statement for certain cash receipts and cash payments where diversity in practice exists. ASU 2016-15 also provides an accounting policy election to classify cash flows from an equity method investee under the cumulative earnings approach or the nature of distribution approach. Finally, ASU 2016-15 provides guidance on the presentation of individual cash flows with characteristics of multiple classifications. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The provisions of ASU 2016-15 should be applied using a retrospective transition method to each period presented. FHN is evaluating the impact of ASU 2016-15 on its current cash flow presentation practices.

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Note 2 Acquisitions and Divestitures

On October 27, 2016, FTN Financial announced its plan to acquire Coastal Securities (Coastal), a national leader in the trading, securitization, and analysis of Small Business Administration (SBA) loans, for approximately $160 million in cash. Based in Houston, TX, Coastal also trades United States Department of Agriculture (USDA) loans and fixed income products and provides municipal underwriting and advisory services to its clients. Coastal s government-guaranteed loan products, combined with FTN Financial s existing SBA trading activities, will establish an additional major product sector for FTN Financial. The transaction, which is subject to regulatory approvals, the affirmative vote of Coastal Financial Holdings, Inc. (CFH) shareholders and other customary closing conditions, is expected to close in early 2017.

On September 16, 2016, FTBNA acquired $537.4 million in unpaid principal balance (UPB) of restaurant franchise loans from GE Capital s Southeast and Southwest regional portfolios. Subsequent to the acquisition the acquired loans were combined with existing FTBNA relationships to establish a franchise finance specialty lending business.

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 TAB had five branches located in Raleigh, Cary and Greenville, North Carolina. 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 addition to the transactions 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 September 30, 2016 and 2015:

(Dollars in thousands)	September 30, 2016 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)	1,877,496	62,910	(49)	1,940,357
Government agency issued collateralized mortgage obligations (CMO)	1,881,795	21,457	(2,108)	1,901,144
Equity and other (a)	185,992	1		185,993
Total securities available-for-sale (b)	**$ 3,945,383**	**$ 84,368**	**$ (2,157)**	**$ 4,027,594**
Securities held-to-maturity:				
States and municipalities	$ 4,340	$ 400	$	$ 4,740
Corporate bonds	10,000	302		10,302
Total securities held-to-maturity	**$ 14,340**	**$ 702**	**$**	**$ 15,042**

(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 $3.3 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.

(Dollars in thousands)	September 30, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. treasuries	$ 100	$	$	$ 100
Government agency issued MBS	914,878	31,773	(700)	945,951
Government agency issued CMO	2,514,362	30,281	(9,207)	2,535,436
Other U.S. government agencies	1,443	3		1,446
States and municipalities	9,155			9,155
Equity and other (a)	182,014		(461)	181,553
Total securities available-for-sale (b)	$ 3,621,952	$ 62,057	$ (10,368)	$ 3,673,641

Securities held-to-maturity:								
States and municipalities	$	4,313	$	1,091	$		$	5,404
Total securities held-to-maturity	$	4,313	$	1,091	$		$	5,404

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

(b) Includes $2.9 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 September 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	$	$	$ 100	$ 100
After 1 year; within 5 years				
After 5 years; within 10 years	10,000	10,302		
After 10 years	4,340	4,740		
Subtotal	14,340	15,042	100	100
Government agency issued MBS and CMO (a)			3,759,291	3,841,501
Equity and other			185,992	185,993
Total	**$ 14,340**	**$ 15,042**	**$ 3,945,383**	**$ 4,027,594**

(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 nine months ended September 30:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Gross gains on sales of securities	**$**	$	**$ 3,999**	$ 284
Gross (losses) on sales of securities			**(2,326)**	
Net gain/(loss) on sales of securities (a)			**1,673**	284
Net OTTI recorded (b)	**(200)**	(345)	**(200)**	(345)
Total securities gain/(loss), net	**$ (200)**	$ (345)	**$ 1,473**	$ (61)

(a)

There were no sales proceeds for the three months ended September 30, 2016 and 2015; cash proceeds for the nine months ended September 30, 2016 and 2015 were $1.5 million and $.3 million, respectively. Nine months ended September 30, 2016 includes a $1.7 million gain from an exchange of approximately $294 million of AFS debt securities.

(b) OTTI recorded is related to equity 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 September 30, 2016 and 2015:

	As of September 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	$ 320,282	$ (631)	$ 142,060	$ (1,477)	$ 462,342	$ (2,108)
Government agency issued MBS	38,477	(49)			38,477	(49)
Total temporarily impaired securities	**$ 358,759**	**$ (680)**	**$ 142,060**	**$ (1,477)**	**$ 500,819**	**$ (2,157)**

	As of September 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	$ 370,165	$ (1,487)	$ 435,331	$ (7,720)	$ 805,496	$ (9,207)
Government agency issued MBS	69,997	(242)	32,538	(458)	102,535	(700)
Total debt securities	440,162	(1,729)	467,869	(8,178)	908,031	(9,907)
Equity			630	(461)	630	(461)
Total temporarily impaired securities	$ 440,162	$ (1,729)	$ 468,499	$ (8,639)	$ 908,661	$ (10,368)

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 September 30, 2016 and 2015, and December 31, 2015:

	September 30		December 31
(Dollars in thousands)	**2016**	2015	2015
Commercial:			
Commercial, financial, and industrial	**$ 12,118,298**	$ 9,610,295	$ 10,436,390
Commercial real estate	**2,065,595**	1,488,044	1,674,935
Consumer:			
Consumer real estate (a)	**4,578,371**	4,813,936	4,766,518
Permanent mortgage	**436,100**	463,893	454,123
Credit card & other	**357,423**	349,324	354,536
Loans, net of unearned income	**$ 19,555,787**	$ 16,725,492	$ 17,686,502
Allowance for loan losses	**201,557**	210,814	210,242
Total net loans	**$ 19,354,230**	$ 16,514,678	$ 17,476,260

(a) Balances as of September 30, 2016 and 2015, and December 31, 2015, include $38.5 million, $59.3 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 home equity lines of credit (HELOCs), 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 (26 percent of total loans), the majority of which is in the consumer real estate segment (23 percent of total loans). Loans to finance and insurance companies total $2.3 billion

(19 percent of the C&I portfolio, or 12 percent of the total loans). FHN had loans to mortgage companies totaling $2.5 billion (20 percent of the C&I segment, or 13 percent of total loans) as of September 30, 2016. As a result, 39 percent of the C&I segment was sensitive to impacts on the financial services industry.

Acquisition

On September 16, 2016, FHN completed its acquisition of restaurant franchise loans from GE Capital. The acquisition included $537.4 million in unpaid principal balance of loans.

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.

At each 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 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 reflects FHN s contractually required payment receivable, cash flows expected to be collected and the fair value of PCI loans at the acquisition date of September 16, 2016.

(Dollars in thousands)	September 16, 2016
Contractually required payments including interest	$ 40,143
Less: nonaccretable difference	(1,030)
Cash flows expected to be collected	39,113
Less: accretable yield	(2,883)
Fair value of loans acquired	**$ 36,230**

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Balance, beginning of period	**$ 6,171**	$ 8,348	**$ 8,542**	$ 14,714
Additions	**2,883**		**2,883**	
Accretion	**(837)**	(1,037)	**(2,984)**	(5,985)
Adjustment for payoffs	**(179)**	(835)	**(4,408)**	(2,931)
Adjustment for charge-offs			**(674)**	
Increase in accretable yield (a)	**686**	500	**5,398**	1,178
Other			**(33)**	
Balance, end of period	**$ 8,724**	$ 6,976	**$ 8,724**	$ 6,976

(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 September 30, 2016, the ALLL related to PCI loans was $1.2 million compared to $2.9 million at September 30, 2015. A loan loss provision expense of $.3 million was recognized during the three months ended September 30, 2016, as compared to $.1 million recognized during the three months ended September 30, 2015. The PCI provision was not material for the nine months ended September 30, 2016, and was a provision credit of $.4 million for the nine months ended September 30, 2015.

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

	September 30, 2016		September 30, 2015		December 31, 2015	
(Dollars in thousands)	**Carrying value**	**Unpaid balance**	Carrying value	Unpaid balance	Carrying value	Unpaid balance
Commercial, financial and industrial	**$ 46,189**	**$ 47,882**	$ 4,767	$ 5,353	$ 16,063	$ 18,573
Commercial real estate	**8,661**	**11,340**	17,998	21,138	19,929	25,504
Consumer real estate	**1,233**	**1,733**	1,968	2,636	3,672	4,533
Credit card and other	**51**	**65**	6	10	52	76
Total	**$ 56,134**	**$ 61,020**	$ 24,739	$ 29,137	$ 39,716	$ 48,686

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Note 4 Loans (Continued)

Impaired Loans

The following tables provide information at September 30, 2016 and 2015, by class related to individually impaired loans and consumer TDRs, regardless of accrual status. 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.

	September 30, 2016			Three Months Ended September 30, 2016		Nine Months Ended September 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	$ 13,127	$ 20,666	$	$ 13,708	$	$ 12,088	$
Income CRE				1,234		2,057	
Total	$ 13,127	$ 20,666	$	$ 14,942	$	$ 14,145	$
Consumer:							
HELOC (a)	$ 11,359	$ 24,541	$	$ 11,273	$	$ 11,100	$
R/E installment loans (a)	4,084	5,094		4,158		4,333	
Permanent mortgage (a)	4,279	6,654		4,280		4,292	
Total	$ 19,722	$ 36,289	$	$ 19,711	$	$ 19,725	$
Impaired loans with related allowance recorded:							
Commercial:							
General C&I	$ 32,982	$ 34,915	$ 4,262	$ 33,433	$ 289	$ 29,896	$ 668
TRUPS	3,242	3,700	925	3,258		3,291	
Income CRE	1,968	2,246	113	3,211	15	4,376	55
Residential CRE	1,334	1,803	103	1,355	5	1,376	17
Total	$ 39,526	$ 42,664	$ 5,403	$ 41,257	$ 309	$ 38,939	$ 740
Consumer:							
HELOC	$ 86,967	$ 89,500	$ 15,769	$ 87,919	$ 546	$ 88,266	$ 1,527
R/E installment loans	56,499	57,686	13,692	57,775	357	58,890	1,019
Permanent mortgage	89,792	102,355	14,611	90,697	544	92,716	1,602

Credit card & other	**340**	**340**	**139**	**348**	**4**	**353**	**10**
Total	**$ 233,598**	**$ 249,881**	**$ 44,211**	**$ 236,739**	**$ 1,451**	**$ 240,225**	**$ 4,158**
Total commercial	**$ 52,653**	**$ 63,330**	**$ 5,403**	**$ 56,199**	**$ 309**	**$ 53,084**	**$ 740**
Total consumer	**$ 253,320**	**$ 286,170**	**$ 44,211**	**$ 256,450**	**$ 1,451**	**$ 259,950**	**$ 4,158**
Total impaired loans	**$ 305,973**	**$ 349,500**	**$ 49,614**	**$ 312,649**	**$ 1,760**	**$ 313,034**	**$ 4,898**

(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)

	September 30, 2015			Three Months Ended September 30, 2015		Nine Months Ended September 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	$ 5,586	$ 7,266	$	$ 8,994	$	$ 11,202	$
Income CRE	2,468	9,389		3,328		4,631	
Residential CRE						191	
Total	$ 8,054	$ 16,655	$	$ 12,322	$	$ 16,024	$
Consumer:							
HELOC (a)	$ 11,000	$ 28,486	$	$ 11,788	$	$ 12,455	$
R/E installment loans (a)	4,404	5,756		4,682		4,696	
Permanent mortgage (a)	5,983	8,255		6,193		6,743	
Total	$ 21,387	$ 42,497	$	$ 22,663	$	$ 23,894	$
Impaired loans with related allowance recorded:							
Commercial:							
General C&I	$ 21,319	$ 25,515	$ 846	$ 25,934	$ 238	$ 24,702	$ 727
TRUPS	13,369	13,700	5,310	13,384		13,414	
Income CRE	6,424	7,709	496	6,606	32	6,962	95
Residential CRE	1,417	1,886	91	1,468	6	1,512	19
Total	$ 42,529	$ 48,810	$ 6,743	$ 47,392	$ 276	$ 46,590	$ 841
Consumer:							
HELOC	$ 89,199	$ 91,382	$ 17,200	$ 88,245	$ 474	$ 86,359	$ 1,383
R/E installment loans	65,465	66,431	16,718	66,367	352	68,274	1,010
Permanent mortgage	99,071	111,683	15,696	99,913	613	102,341	1,841
Credit card & other	380	380	168	399	3	453	11
Total	$ 254,115	$ 269,876	$ 49,782	$ 254,924	$ 1,442	$ 257,427	$ 4,245
Total commercial	$ 50,583	$ 65,465	$ 6,743	$ 59,714	$ 276	$ 62,614	$ 841
Total consumer	$ 275,502	$ 312,373	$ 49,782	$ 277,587	$ 1,442	$ 281,321	$ 4,245
Total impaired loans	$ 326,085	$ 377,838	$ 56,525	$ 337,301	$ 1,718	$ 343,935	$ 5,086

(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 September 30, 2016 and 2015:

	September 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	$ 475,708	$	$	$ 1,109	$	$ 476,817	3%	$ 85
2	689,620			11,586	91	701,297	5	332
3	445,832	645,764		133,661		1,225,257	9	298
4	924,003	409,470		230,460		1,563,933	11	1,001
5	1,148,228	286,413		299,750	561	1,734,952	12	6,330
6	1,417,978	762,294		297,287	13,145	2,490,704	18	10,367
7	1,431,070	209,511		479,531	3,286	2,123,398	15	13,302
8	995,678	93,661		321,942	4,174	1,415,455	10	23,930
9	634,142	32,537		105,274	4,079	776,032	5	14,419
10	367,947	40,099		57,528	12,708	478,282	3	8,401
11	218,754			24,245	4,532	247,531	2	6,229
12	118,425			12,678	6,701	137,804	1	4,290
13	216,314		304,527	8,990	135	529,966	4	7,262
14,15,16	154,412	70		18,207	1,441	174,130	1	16,804
Collectively evaluated for impairment	9,238,111	2,479,819	304,527	2,002,248	50,853	14,075,558	99	113,050
Individually evaluated for impairment	46,109		3,242	1,968	1,334	52,653		5,403
Purchased credit-impaired loans	46,490			8,758	434	55,682	1	833
Total commercial loans	$ 9,330,710	$ 2,479,819	$ 307,769	$ 2,012,974	$ 52,621	$ 14,183,893	100%	$ 119,286

	September 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	$ 529,836	$	$	$ 707	$	$ 530,543	5%	$ 127

2	590,614			10,835	126	601,575	5	322
3	453,831	327,776		90,588		872,195	8	311
4	822,515	315,061		110,165	302	1,248,043	11	949
5	1,190,085	239,391		234,729	7,015	1,671,220	15	6,901
6	1,201,553	350,401		347,740	2,793	1,902,487	17	10,630
7	1,278,443	98,262		354,457	4,670	1,735,832	16	13,891
8	747,760	18,189		150,375	561	916,885	8	13,953
9	377,998	26,240		42,995	2,212	449,445	4	8,310
10	188,711			30,515	89	219,315	2	4,635
11	186,974			28,004	747	215,725	2	5,861
12	80,836			9,095	516	90,447	1	2,975
13	112,423		305,382	3,600	260	421,665	4	4,256
14,15,16	123,345			23,195	1,277	147,817	1	14,533
Collectively evaluated for impairment	7,884,924	1,375,320	305,382	1,437,000	20,568	11,023,194	99	87,654
Individually evaluated for impairment	26,904		12,755	8,892	1,417	49,968	1	6,743
Purchased credit-impaired loans	5,010			18,533	1,634	25,177		2,414
Total commercial loans	$ 7,916,838	$ 1,375,320	$ 318,137	$ 1,464,425	$ 23,619	$ 11,098,339	100%	$ 96,811

(a) Balances as of September 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 September 30, 2016 and 2015:

	September 30, 2016			September 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%**	**68.7%**	**43.6%**	55.4%	67.6%	43.1%
FICO score 720-739	**8.9**	**9.1**	**9.5**	8.8	8.1	9.2
FICO score 700-719	**8.8**	**7.1**	**11.9**	9.2	7.9	10.0
FICO score 660-699	**13.2**	**8.8**	**16.5**	12.9	8.8	16.8
FICO score 620-659	**5.9**	**3.4**	**8.7**	6.5	4.1	8.4
FICO score less than 620 (a)	**6.9**	**2.9**	**9.8**	7.2	3.5	12.5
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 September 30, 2016:

	Accruing				**Non-Accruing**				
(Dollars 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**
Commercial (C&I):									
General C&I	$ 9,253,922	$ 3,570	$ 96	**$ 9,257,588**	$ 9,897	$ 2,440	$ 14,295	**$ 26,632**	**$ 9,284,220**
Loans to mortgage companies	2,478,708	1,041		**2,479,749**			70	**70**	**2,479,819**

TRUPS (a)	304,527			**304,527**			3,242	**3,242**	**307,769**
Purchased credit-impaired loans	45,311	711	468	**46,490**					**46,490**
Total commercial (C&I)	12,082,468	5,322	564	**12,088,354**	9,897	2,440	17,607	**29,944**	**12,118,298**
Commercial real estate:									
Income CRE	2,000,553	1,071		**2,001,624**	113	468	2,011	**2,592**	**2,004,216**
Residential CRE	50,221	1,141		**51,362**			825	**825**	**52,187**
Purchased credit-impaired loans	7,697	390	1,105	**9,192**					**9,192**
Total commercial real estate	2,058,471	2,602	1,105	**2,062,178**	113	468	2,836	**3,417**	**2,065,595**
Consumer real estate:									
HELOC	1,693,312	16,054	10,031	**1,719,397**	50,377	4,101	10,126	**64,604**	**1,784,001**
R/E installment loans	2,754,910	9,932	3,129	**2,767,971**	19,251	2,319	3,263	**24,833**	**2,792,804**
Purchased credit-impaired loans	1,315		251	**1,566**					**1,566**
Total consumer real estate	4,449,537	25,986	13,411	**4,488,934**	69,628	6,420	13,389	**89,437**	**4,578,371**
Permanent mortgage	396,285	4,331	6,380	**406,996**	11,113	3,867	14,124	**29,104**	**436,100**
Credit card & other:									
Credit card	186,482	1,464	1,230	**189,176**					**189,176**
Other	167,015	843	190	**168,048**			148	**148**	**168,196**
Purchased credit-impaired loans	51			**51**					**51**
Total credit card & other	353,548	2,307	1,420	**357,275**			148	**148**	**357,423**
Total loans, net of unearned income	$ 19,340,309	$ 40,548	$ 22,880	**$ 19,403,737**	$ 90,751	$ 13,195	$ 48,104	**$ 152,050**	**$ 19,555,787**

(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 September 30, 2015:

		Accruing				Non-Accruing			
(Dollars 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**
Commercial (C&I):									
General C&I	$ 7,888,633	$ 6,095	$ 349	**$ 7,895,077**	$ 5,359	$ 1,553	$ 9,839	**$ 16,751**	**$ 7,911,828**
Loans to mortgage companies	1,373,103	2,102		**1,375,205**			115	**115**	**1,375,320**
TRUPS (a)	305,382			**305,382**			12,755	**12,755**	**318,137**
Purchased credit-impaired loans	4,705		305	**5,010**					**5,010**
Total commercial (C&I)	9,571,823	8,197	654	**9,580,674**	5,359	1,553	22,709	**29,621**	**9,610,295**
Commercial real estate:									
Income CRE	1,435,395	2,394		**1,437,789**	914		7,189	**8,103**	**1,445,892**
Residential CRE	21,905	80		**21,985**					**21,985**
Purchased credit-impaired loans	16,172	3,845	150	**20,167**					**20,167**
Total commercial real estate	1,473,472	6,319	150	**1,479,941**	914		7,189	**8,103**	**1,488,044**
Consumer real estate:									
HELOC	2,056,044	19,459	10,146	**2,085,649**	63,667	5,150	9,126	**77,943**	**2,163,592**
R/E installment loans	2,599,513	11,423	3,211	**2,614,147**	26,293	2,174	5,258	**33,725**	**2,647,872**
Purchased credit-impaired loans	2,383		89	**2,472**					**2,472**
Total consumer real estate	4,657,940	30,882	13,446	**4,702,268**	89,960	7,324	14,384	**111,668**	**4,813,936**
Permanent mortgage	420,727	4,051	5,270	**430,048**	14,044	3,228	16,573	**33,845**	**463,893**
Credit card & other:									
Credit card	187,770	2,049	1,171	**190,990**					**190,990**

Other	156,664	718	202	**157,584**			743	**743**	**158,327**
Purchased credit-impaired loans	7			**7**					**7**
Total credit card & other	344,441	2,767	1,373	**348,581**			743	**743**	**349,324**
Total loans, net of unearned income	$ 16,468,403	$ 52,216	$ 20,893	**$ 16,541,512**	$ 110,277	$ 12,105	$ 61,598	**$ 183,980**	**$ 16,725,492**

(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 generally returns to the original interest rate prior to modification; for certain modifications, the modified interest rate increases 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

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Note 4 Loans (Continued)

may be extended to 40 years on permanent mortgages and to 30 years for consumer real estate loans. Within the 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 September 30, 2016 and 2015, FHN had $289.6 million and $304.7 million portfolio loans classified as TDRs, respectively. For TDRs in the loan portfolio, FHN had loan loss reserves of $48.7 million and $51.2 million, or 17 percent as of September 30, 2016 and 2015. Additionally, $71.2 million and $72.6 million of loans held-for-sale as of September 30, 2016 and 2015, respectively, were classified as TDRs.

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Note 4 Loans (Continued)

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

	Three Months Ended September 30, 2016			Nine Months Ended September 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	**2**	**$ 419**	**$ 419**	**7**	**$ 20,302**	**$ 19,194**
Total commercial (C&I)	**2**	**419**	**419**	**7**	**20,302**	**19,194**
Commercial real estate:						
Income CRE	**1**	**100**	**99**	**1**	**100**	**99**
Total commercial real estate	**1**	**100**	**99**	**1**	**100**	**99**
Consumer real estate:						
HELOC	**48**	**5,720**	**5,573**	**200**	**18,418**	**18,189**
R/E installment loans	**10**	**345**	**337**	**44**	**4,569**	**4,846**
Total consumer real estate	**58**	**6,065**	**5,910**	**244**	**22,987**	**23,035**
Permanent mortgage	**2**	**710**	**704**	**6**	**1,551**	**1,544**
Credit card & other	**10**	**45**	**44**	**15**	**66**	**64**
Total troubled debt restructurings	**73**	**$ 7,339**	**$ 7,176**	**273**	**$ 45,006**	**$ 43,936**

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
(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		$	$	2	$ 1,388	$ 1,325
Total commercial (C&I)				2	1,388	1,325
Commercial real estate:						

Income CRE									
Total commercial real estate									
Consumer real estate:									
HELOC	56		6,918		6,820	158		17,882		17,674
R/E installment loans	20		988		974	58		4,254		4,267
Total consumer real estate	76		7,906		7,794	216		22,136		21,941
Permanent mortgage						6		2,039		2,054
Credit card & other	3		11		10	15		59		56
Total troubled debt restructurings	79	$	7,917	$	7,804	239	$	25,622	$	25,376

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Note 4 Loans (Continued)

The following tables present TDRs which re-defaulted during the three and nine months ended September 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 September 30, 2016		**Nine Months Ended September 30, 2016**	
(Dollars in thousands)	**Number**	**Recorded Investment**	**Number**	**Recorded Investment**
Commercial real estate:				
Residential CRE		$		$
Total commercial real estate				
Consumer real estate:				
HELOC			**2**	**138**
R/E installment loans			**1**	**180**
Total consumer real estate			**3**	**318**
Credit card & other				
Total troubled debt restructurings		$	**3**	$ **318**

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
(Dollars in thousands)	Number	Recorded Investment	Number	Recorded Investment
Commercial real estate:				
Residential CRE		$	1	$ 896
Total commercial real estate			1	896
Consumer real estate:				
HELOC			7	308
R/E installment loans	2	50	4	162
Total consumer real estate	2	50	11	470

Credit card & other	1		2	4		10
Total troubled debt restructurings	3	$	52	16	$	1,376

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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 nine months ended September 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 July 1, 2016	$ 80,972	$ 30,264	$ 59,081	$ 17,600	$ 11,890	$ 199,807
Charge-offs	(1,992)	(49)	(4,359)	(373)	(3,589)	(10,362)
Recoveries	725	651	5,591	239	906	8,112
Provision/(provision credit) for loan losses	7,161	1,554	(7,078)	(877)	3,240	4,000
Balance as of September 30, 2016	86,866	32,420	53,235	16,589	12,447	201,557
Balance as of January 1, 2016	$ 73,637	$ 25,159	$ 80,614	$ 18,947	$ 11,885	$ 210,242
Charge-offs	(16,386)	(742)	(17,867)	(834)	(10,441)	(46,270)
Recoveries	3,107	1,782	17,408	1,502	2,786	26,585
Provision/(provision credit) for loan losses	26,508	6,221	(26,920)	(3,026)	8,217	11,000
Balance as of September 30, 2016	86,866	32,420	53,235	16,589	12,447	201,557
Allowance - individually evaluated for impairment	5,187	216	29,461	14,611	139	49,614
Allowance - collectively evaluated for impairment	81,376	31,674	23,441	1,978	12,308	150,777
Allowance - purchased credit-impaired loans	303	530	333			1,166
Loans, net of unearned as of September 30, 2016:						
Individually evaluated for impairment	49,351	3,302	158,909	94,071	340	305,973
Collectively evaluated for impairment	12,022,457	2,053,101	4,417,896	342,029	357,032	19,192,515
Purchased credit-impaired loans	46,490	9,192	1,566		51	57,299
Total loans, net of unearned income	$ 12,118,298	$ 2,065,595	$ 4,578,371	$ 436,100	$ 357,423	$ 19,555,787

Balance as of July 1, 2015	$ 78,750	$ 21,492	$ 85,457	$ 22,377	$ 13,275	$ 221,351
Charge-offs	(8,632)	(533)	(7,994)	(1,038)	(3,612)	(21,809)
Recoveries	2,264	868	5,785	229	1,126	10,272
Provision/(provision credit) for loan losses	(919)	3,521	(776)	(1,492)	666	1,000
Balance as of September 30, 2015	71,463	25,348	82,472	20,076	11,455	210,814
Balance as of January 1, 2015	$ 67,011	$ 18,574	$ 113,011	$ 19,122	$ 14,730	$ 232,448
Charge-offs	(17,163)	(2,208)	(23,434)	(3,031)	(13,406)	(59,242)
Recoveries	5,143	1,712	18,360	1,518	2,875	29,608
Provision/(provision credit) for loan losses	16,472	7,270	(25,465)	2,467	7,256	8,000
Balance as of September 30, 2015	71,463	25,348	82,472	20,076	11,455	210,814
Allowance - individually evaluated for impairment	6,156	587	33,918	15,696	168	56,525
Allowance - collectively evaluated for impairment	65,063	22,591	48,050	4,380	11,286	151,370
Allowance - purchased credit-impaired loans	244	2,170	504		1	2,919
Loans, net of unearned as of September 30, 2015:						
Individually evaluated for impairment	39,659	10,309	170,068	105,054	380	325,470
Collectively evaluated for impairment	9,565,626	1,457,568	4,641,396	358,839	348,937	16,372,366
Purchased credit-impaired loans	5,010	20,167	2,472		7	27,656
Total loans, net of unearned income	$ 9,610,295	$ 1,488,044	$ 4,813,936	$ 463,893	$ 349,324	$ 16,725,492

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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		(3,894)
September 30, 2015	$ 145,932	$ 25,624
December 31, 2015 (b)	$ 191,307	$ 26,215
Amortization expense		(3,898)
Additions	64	
September 30, 2016	**$ 191,371**	**$ 22,317**

(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 $50.0 million, respectively on September 30, 2016. Estimated aggregate amortization expense is expected to be $1.3 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 September 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 nine months ended September 30, 2015 and 2016.

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

Divestitures			
September 30, 2015	$ 47,928	$ 98,004	$ 145,932
December 31, 2015 (a)	$ 93,303	$ 98,004	$ 191,307
Additions	64		64
Impairments			
Divestitures			
September 30, 2016	**$ 93,367**	**$ 98,004**	**$ 191,371**

(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:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2016**	2015	**2016**	2015
All other income and commissions:				
Mortgage banking	**$ 5,524**	$ 761	**$ 7,395**	$ 2,721
ATM interchange fees	**3,081**	2,998	**8,918**	8,784
Electronic banking fees	**1,398**	1,479	**4,176**	4,366
Deferred compensation (a)	**1,038**	(2,309)	**2,162**	(1,311)
Letter of credit fees	**981**	978	**3,157**	3,633
Gain on extinguishment of debt		5,794		5,794
Other	**5,518**	3,550	**10,594**	13,096
Total	**$ 17,540**	$ 13,251	**$ 36,402**	$ 37,083
All other expense:				
Travel and entertainment	**$ 2,478**	$ 2,451	**$ 7,035**	$ 6,697
Customer relations	**1,442**	1,477	**4,804**	4,296
Employee training and dues	**1,360**	1,272	**4,088**	3,853
Supplies	**1,158**	974	**3,114**	2,781
Tax credit investments	**788**	439	**2,325**	1,383
Miscellaneous loan costs	**676**	726	**1,958**	1,821
Litigation and regulatory matters	**260**	10,922	**25,785**	173,422
Other	**8,326**	8,835	**30,669**	26,565
Total	**$ 16,488**	$ 27,096	**$ 79,778**	$ 220,818

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 nine months ended September 30, 2016 and 2015:

(Dollars in thousands)	Securities AFS	Cash Flow Hedges	Pension and Post-retirement Plans	Total
Balance as of July 1, 2016	$ 58,591	$ 4,691	$ (215,616)	$ (152,334)
Net unrealized gains/(losses)	(7,887)	(1,211)		(9,098)
Amounts reclassified from AOCI		(359)	963	604
Other comprehensive income/(loss)	(7,887)	(1,570)	963	(8,494)
Balance as of September 30, 2016	**$ 50,704**	**$ 3,121**	**$ (214,653)**	**$ (160,828)**
Balance as of January 1, 2016	$ 3,394	$	$ (217,586)	$ (214,192)
Net unrealized gains/(losses)	48,330	4,228		52,558
Amounts reclassified from AOCI	(1,020)	(1,107)	2,933	806
Other comprehensive income/(loss)	47,310	3,121	2,933	53,364
Balance as of September 30, 2016	**$ 50,704**	**$ 3,121**	**$ (214,653)**	**$ (160,828)**

(Dollars in thousands)				
Balance as of July 1, 2015	$ 16,485	$	$ (204,733)	$ (188,248)
Net unrealized gains/(losses)	15,427			15,427
Amounts reclassified from AOCI			(3,855)	(3,855)
Other comprehensive income/(loss)	15,427		(3,855)	11,572
Balance as of September 30, 2015	$ 31,912	$	$ (208,588)	$ (176,676)
Balance as of January 1, 2015	$ 18,581	$	$ (206,827)	$ (188,246)
Net unrealized gains/(losses)	13,331			13,331
Amounts reclassified from AOCI			(1,761)	(1,761)
Other comprehensive income/(loss)	13,331		(1,761)	11,570
Balance as of September 30, 2015	$ 31,912	$	$ (208,588)	$ (176,676)

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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 September 30		Nine Months Ended September 30		Affected line item in the statement
Details about AOCI	**2016**	2015	**2016**	2015	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	**(582)**		**(1,795)**		Interest and fees on loans
Tax expense/(benefit)	**223**		**688**		Provision/(benefit) for income taxes
	(359)		**(1,107)**		
Pension and Postretirement Plans:					
Amortization of prior service cost, transition asset/obligation, and net actuarial gain/(loss)	**1,561**	(6,266)	**4,756**	(2,854)	Employee compensation, incentives, and benefits
Tax expense/(benefit)	**(598)**	2,411	**(1,823)**	1,093	Provision/(benefit) for income taxes
	963	(3,855)	**2,933**	(1,761)	
Total reclassification from AOCI	**$ 604**	$ (3,855)	**$ 806**	$ (1,761)	

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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 September 30 **2016**	2015	Nine Months Ended September 30 **2016**	2015
Net income/(loss)	**$ 67,635**	$ 63,332	**$ 180,788**	$ 45,884
Net income attributable to noncontrolling interest	**2,883**	2,977	**8,586**	8,586
Net income/(loss) attributable to controlling interest	**64,752**	60,355	**172,202**	37,298
Preferred stock dividends	**1,550**	1,550	**4,650**	4,650
Net income/(loss) available to common shareholders	**$ 63,202**	$ 58,805	**$ 167,552**	$ 32,648
Weighted average common shares outstanding - basic	**231,856**	233,111	**232,690**	232,910
Effect of dilutive securities	**2,236**	1,947	**2,085**	1,928
Weighted average common shares outstanding - diluted	**234,092**	235,058	**234,775**	234,838
Net income/(loss) per share available to common shareholders	**$ 0.27**	$ 0.25	**$ 0.72**	$ 0.14
Diluted income/(loss) per share available to common shareholders	**$ 0.27**	$ 0.25	**$ 0.71**	$ 0.14

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 September 30 **2016**	2015	Nine Months Ended September 30 **2016**	2015
Anti-dilutive stock options	**2,793**	3,569	**2,996**	3,559
Weighted average exercise price of anti-dilutive stock options	**$ 24.95**	$ 24.22	**$ 25.21**	$ 24.46
Anti-dilutive other equity awards	**371**	124	**51**	58

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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 a loss contingency liability for a litigation matter 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, or groups of 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 September 30, 2016, the aggregate amount of liabilities established for all such loss contingency matters was $39.9 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 September 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 $70 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

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. For two of those matters, FHN can estimate reasonably possible loss in excess of established liabilities: (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

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Note 10 Contingencies and Other Disclosures (Continued)

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.

Material Matter Excluded from RPL Range due to Proposed Settlement

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. In July 2016 FHN and the plaintiff submitted a notice of proposed settlement to the court, which later received preliminary approval by the court. The proposed settlement remains subject to an extended approval process which FHN estimates will be completed in the first half of 2017. The material loss contingency liability mentioned above includes an amount for this matter based on FHN s assessment of the settlement.

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. The material loss contingency liability mentioned above includes an amount for an indemnity matter which FHN recently settled with the claimant; that settlement now is completed but had not yet been paid at quarter-end.

For the two pending lawsuits FHN is able to estimate RPL, as mentioned above. For the pending 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 pending indemnification claims total $409.9 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, and some might eventually result in litigation liability, but none are included in the material loss contingency liabilities 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.

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Note 10 Contingencies and Other Disclosures (Continued)

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.

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.

Note 10 Contingencies and Other Disclosures (Continued)

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 and resulted in a reversal of certain prior provision expense. Repurchase claims that are not resolved by the parties could become litigation.

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.

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 a substantial majority of all repurchase requests/make-whole claims received since the 2008 platform sale.

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

Agencies	the two GSEs and Ginnie Mae	**HELOC**	home equity line of credit
certificates	securities sold to investors representing interests in mortgage loan securitizations	**HUD**	Dept. of Housing and Urban Development
DOJ	U.S. Department of Justice	**LTV**	loan-to-value, a ratio of the loan amount divided by the home value
DRA	definitive resolution agreement with a GSE	**MI**	private mortgage insurance, insuring against borrower payment default
Fannie Mae, Fannie, FNMA	Federal National Mortgage Association	**MSR**	mortgage servicing rights
FH proprietary securitization	securitization of mortgages sponsored by FHN under its First Horizon brand	**nonconforming loans**	loans that did not conform to Agency program requirements
FHA	Federal Housing Administration	**other whole loans sold**	mortgage loans sold to private, non-Agency purchasers
Freddie Mac, Freddie, FHLMC	Federal Home Loan Mortgage Corporation	**2008 platform sale, platform sale, 2008 sale**	FHN s sale of its national mortgage origination and servicing platforms in 2008
Ginnie Mae, Ginnie, GNMA	Government National Mortgage Association	**pipeline or active pipeline**	pipeline of mortgage repurchase, make-whole, & certain related claims against FHN
GSEs	Fannie Mae and Freddie Mac	**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 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 $67.6 million and $115.5 million as of September 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/expense reversals to increase/decrease 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 September 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 September 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 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.

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Note 10 Contingencies and Other Disclosures (Continued)

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 September 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 is prohibited 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 September 30, 2016 and 2015, the derivative liabilities were $6.5 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 is restricted, with limited exceptions.

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 September 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 September 30, 2016, assuming conversion into Class A shares at the current conversion ratio, FHN s Visa holdings would have a value of approximately $151 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.

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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. 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 contributed $165 million to the qualified pension plan in third quarter 2016. The contribution had no effect on FHN s Consolidated Condensed Statements of Income. There were no contributions to the qualified pension plan in 2015.

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 estimates that by the end of 2016, $5.2 million will have been contributed to the non-qualified plans 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. In third quarter 2015, FHN notified participants of revisions to the retiree medical plan effective January 1, 2016. In conjunction with this action, FHN recognized an $8.3 million curtailment gain in third quarter 2015. FHN also recognized a $1.0 million reduction in the plans projected benefit obligation and a $5.3 million tax-effected adjustment to accumulated other comprehensive income.

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

The components of net periodic benefit cost for the three months ended September 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	**$ 28**	$ 37
Interest cost	**7,648**	9,278	**335**	342
Expected return on plan assets	**(9,797)**	(9,354)	**(227)**	(243)
Amortization of unrecognized:				
Prior service cost/(credit)	**48**	84	**43**	(291)
Actuarial (gain)/loss	**1,971**	2,786	**(143)**	(334)
Net periodic benefit cost/(credit)	**$ (120)**	$ 2,804	**$ 36**	$ (489)
ASC 715 curtailment gain				(8,283)
Total periodic benefit cost/(credit)	**$ (120)**	$ 2,804	**$ 36**	$ (8,772)

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

	Pension Benefits		Other Benefits	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Components of net periodic benefit cost				
Service cost	**$ 30**	$ 30	**$ 83**	$ 112
Interest cost	**23,412**	27,318	**969**	1,062
Expected return on plan assets	**(29,342)**	(28,137)	**(685)**	(726)
Amortization of unrecognized:				
Prior service cost/(credit)	**147**	250	**128**	(873)
Actuarial (gain)/loss	**6,106**	7,577	**(608)**	(822)
Net periodic benefit cost/(credit)	**$ 353**	$ 7,038	**$ (113)**	$ (1,247)
ASC 715 curtailment gain				(8,283)
Total periodic benefit cost/(credit)	**$ 353**	$ 7,038	**$ (113)**	$ (9,530)

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 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 nine months ended September 30:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Consolidated				
Net interest income	**$ 185,195**	$ 163,562	**$ 533,533**	$ 487,068
Provision for loan losses	**4,000**	1,000	**11,000**	8,000
Noninterest income	**148,545**	125,103	**428,364**	385,093
Noninterest expense	**233,558**	215,436	**687,307**	810,051
Income/(loss) before income taxes	**96,182**	72,229	**263,590**	54,110
Provision/(benefit) for income taxes	**28,547**	8,897	**82,802**	8,226
Net income/(loss)	**$ 67,635**	$ 63,332	**$ 180,788**	$ 45,884
Average assets	**$ 27,609,702**	$ 25,312,903	**$ 27,021,137**	$ 25,454,266

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 September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Regional Banking				
Net interest income	**$ 190,510**	$ 165,253	**$ 541,144**	$ 485,564
Provision/(provision credit) for loan losses	**8,544**	6,696	**34,194**	28,689
Noninterest income	**65,128**	62,763	**185,679**	188,942
Noninterest expense	**144,972**	135,589	**454,638**	415,026
Income/(loss) before income taxes	**102,122**	85,731	**237,991**	230,791
Provision/(benefit) for income taxes	**37,095**	30,876	**84,976**	82,458
Net income/(loss)	**$ 65,027**	$ 54,855	**$ 153,015**	$ 148,333
Average assets	**$ 17,582,996**	$ 14,989,007	**$ 16,704,503**	$ 14,748,349
Fixed Income				
Net interest income	**$ 2,412**	$ 3,003	**$ 8,225**	$ 11,616
Noninterest income	**72,073**	51,757	**217,278**	169,323
Noninterest expense	**59,575**	59,844	**181,124**	165,836
Income/(loss) before income taxes	**14,910**	(5,084)	**44,379**	15,103
Provision/(benefit) for income taxes	**5,459**	(2,384)	**16,089**	4,914
Net income/(loss)	**$ 9,451**	$ (2,700)	**$ 28,290**	$ 10,189
Average assets	**$ 2,305,968**	$ 2,190,624	**$ 2,348,619**	$ 2,350,786
Corporate				
Net interest income/(expense)	**$ (18,195)**	$ (19,027)	**$ (48,409)**	$ (52,467)
Noninterest income	**5,134**	8,559	**15,766**	17,845
Noninterest expense	**14,841**	11,804	**44,392**	40,207
Income/(loss) before income taxes	**(27,902)**	(22,272)	**(77,035)**	(74,829)
Provision/(benefit) for income taxes	**(16,739)**	(24,946)	**(40,833)**	(52,640)
Net income/(loss)	**$ (11,163)**	$ 2,674	**$ (36,202)**	$ (22,189)
Average assets	**$ 5,880,090**	$ 5,886,929	**$ 6,024,553**	$ 5,951,999
Non-Strategic				
Net interest income	**$ 10,468**	$ 14,333	**$ 32,573**	$ 42,355
Provision/(provision credit) for loan losses	**(4,544)**	(5,696)	**(23,194)**	(20,689)
Noninterest income	**6,210**	2,024	**9,641**	8,983
Noninterest expense	**14,170**	8,199	**7,153**	188,982

Income/(loss) before income taxes	**7,052**	13,854	**58,255**	(116,955)
Provision/(benefit) for income taxes	**2,732**	5,351	**22,570**	(26,506)
Net income/(loss)	**$ 4,320**	$ 8,503	**$ 35,685**	$ (90,449)
Average assets	**$ 1,840,648**	$ 2,246,343	**$ 1,943,462**	$ 2,403,132

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

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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 September 30, 2016 and 2015:

	September 30, 2016		September 30, 2015	
	On-Balance Sheet		On-Balance Sheet	
(Dollars in thousands)	**Consumer Loan Securitization Carrying Value**	**Rabbi Trusts Used for Deferred Compensation Plans Carrying Value**	Consumer Loan Securitization Carrying Value	Rabbi Trusts Used for Deferred Compensation Plans Carrying Value
Assets:				
Cash and due from banks	**$ 127**	**N/A**	$ 2,000	N/A
Loans, net of unearned income	**38,519**	**N/A**	59,258	N/A
Less: Allowance for loan losses	**588**	**N/A**	54	N/A
Total net loans	**37,931**	**N/A**	59,204	N/A
Other assets	**286**	**$ 72,916**	114	$ 66,490
Total assets	**$ 38,344**	**$ 72,916**	$ 61,318	$ 66,490
Liabilities:				
Term borrowings	**$ 26,062**	**N/A**	$ 48,491	N/A
Other liabilities	**3**	**$ 53,429**	3	$ 49,275
Total liabilities	**$ 26,065**	**$ 53,429**	$ 48,494	$ 49,275

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 nine months ended September 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 nine months ended September 30, 2016 and 2015 for LIHTC investments accounted for under the proportional amortization method.

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Provision/(benefit) for income taxes:				
Amortization of qualifying LIHTC investments	**$ 5,445**	$ 2,293	**$ 10,073**	$ 6,653
Low income housing tax credits	**(2,615)**	(2,363)	**(7,672)**	(7,089)
Other tax benefits related to qualifying LIHTC investments	**(6,131)**	(819)	**(8,310)**	(2,418)

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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 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.

Note 13 Variable Interest Entities (Continued)

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 September 30, 2016:

(Dollars in thousands)	Maximum Loss Exposure	Liability Recognized	Classification
Type			
Low income housing partnerships	$ 65,754	$ 12,817	(a)
Other tax credit investments (b) (c)	20,321		Other assets
Small issuer trust preferred holdings (d)	333,309		Loans, net of unearned income
On-balance sheet trust preferred securitization	49,370	64,803	(e)
Proprietary residential mortgage securitizations	17,201		(f)
Holdings of agency mortgage-backed securities (d)	4,586,329		(g)
Short positions in agency mortgage-backed securities (h)	N/A	199	Trading liabilities
Commercial loan troubled debt restructurings (i)	36,354		Loans, net of unearned income
Sale-leaseback transaction	11,827		(j)

(a) Maximum loss exposure represents $52.9 million of current investments and $12.8 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 2017.
(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 $64.8 million classified as Term borrowings.
(f) Includes $.3 million classified as MSR, $2.8 million classified as Trading securities, and $14.1 million of aggregate servicing advances.
(g) Includes $.7 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 $36.3 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 September 30, 2015:

(Dollars in thousands)	Maximum Loss Exposure	Liability Recognized	Classification
Type			

Low income housing partnerships	$ 76,982	$ 22,224	(a)
Other tax credit investments (b) (c)	21,359		Other assets
Small issuer trust preferred holdings (d)	344,291		Loans, net of unearned income
On-balance sheet trust preferred securitization	50,037	64,137	(e)
Proprietary and agency residential mortgage securitizations	25,105		(g)
Holdings of agency mortgage-backed securities (d)	4,030,604		(h)
Short positions in agency mortgage-backed securities (f)	N/A	896	Trading liabilities
Commercial loan troubled debt restructurings (i) (j)	29,280		Loans, net of unearned income

(a) Maximum loss exposure represents $54.8 million of current investments and $22.2 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 $64.1 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, $4.6 million classified as Trading securities, and $19.9 million of aggregate servicing advances.
(h) Includes $549.2 million classified as Trading securities and $3.5 billion classified as Securities available-for-sale.
(i) Maximum loss exposure represents $29.2 million of current receivables and $.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 September 30, 2016 and 2015, respectively, FHN had $77.6 million and $88.6 million of cash receivables and $42.1 million and $47.4 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 $59.0 million and $43.0 million for the three months ended September 30, 2016 and 2015, respectively, and $185.9 million and $143.2 million for the nine months ended September 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 September 30, 2016 and 2015:

	September 30, 2016		
(Dollars in thousands)	Notional	Assets	Liabilities
Customer Interest Rate Contracts	$ 1,891,507	$ 80,800	$ 580
Offsetting Upstream Interest Rate Contracts	1,891,507	580	80,800
Option Contracts Purchased	67,500	89	
Forwards and Futures Purchased	4,183,225	10,092	965
Forwards and Futures Sold	4,528,079	1,667	9,959

	September 30, 2015		
(Dollars in thousands)	Notional	Assets	Liabilities
Customer Interest Rate Contracts	$ 1,670,717	$ 82,905	$ 1,512
Offsetting Upstream Interest Rate Contracts	1,670,717	1,512	82,905
Option Contracts Purchased	10,000	23	
Forwards and Futures Purchased	3,458,150	15,561	353
Forwards and Futures Sold	3,578,542	774	15,568

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 $9.6 million and $8.8 million in Derivative assets as of September 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 $7.7 million in Derivative assets as of September 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 $6.1 million in Derivative assets on September 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 $2.1 million in Derivative assets as of September 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. 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 nine months ended September 30, 2016 and 2015:

				Gains/(Losses)	
(Dollars in thousands)	**Notional**	**Assets**	**Liabilities**	**Three Months Ended September 30, 2016**	**Nine Months Ended September 30, 2016**
Customer Interest Rate Contracts Hedging					
Hedging Instruments and Hedged Items:					
Customer Interest Rate Contracts (a)	$ 1,204,975	$ 45,096	$ 89	$ (1,964)	$ 18,749
Offsetting Upstream Interest Rate Contracts (a)	1,204,975	89	45,596	1,964	(18,749)
Debt Hedging					
Hedging Instruments:					
Interest Rate Swaps (b)	$ 900,000	$ 17,257	N/A	$ (7,254)	$ 19,352
Hedged Items:					
Term Borrowings (b)	N/A	N/A	$ 900,000(c)	$ 7,152(d)	$ (19,059)(d)

				Gains/(Losses)	
(Dollars in thousands)	**Notional**	**Assets**	**Liabilities**	**Three Months Ended September 30, 2015**	**Nine Months Ended September 30, 2015**
Customer Interest Rate Contracts Hedging					
Hedging Instruments and Hedged Items:					
Customer Interest Rate Contracts (a)	$ 790,321	$ 34,507	$ 210	$ 10,558	$ 8,643
Offsetting Upstream Interest Rate Contracts (a)	790,321	210	35,007	(10,558)	(8,643)
Debt Hedging					
Hedging Instruments:					
Interest Rate Swaps (b)	$ 1,150,000	$ 16,960	N/A	$ 3,247	$ (6,593)
Hedged Items:					
Term Borrowings (b)	N/A	N/A	$ 1,150,000(c)	$ (3,167)(d)	$ 6,645(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 nine months ended September 30, 2016.

(Dollars in thousands)	**Notional**	**Assets**	**Liabilities**	**Gains/(Losses) Three Months Ended September 30, 2016**	**Gains/(Losses) Nine Months Ended September 30, 2016**
Cash Flow Hedges					
Hedging Instruments:					
Interest Rate Swaps (a)	$ 250,000	$ 5,061	N/A	$ (2,545)(b)	$ 5,061(b)
Hedged Items:					
Variability in Cash Flows Related to Trust Preferred Loans	N/A	250,000	N/A	N/A	N/A

(a) After tax gains/(losses) included within AOCI.
(b) Includes approximately $1.2 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 nine months ended September 30, 2016 and 2015:

(Dollars in thousands)	**Notional**	**Assets**	**Liabilities**	**Gains/(Losses) Three Months Ended September 30, 2016**	**Gains/(Losses) Nine Months Ended September 30, 2016**
Loan Portfolio Hedging					
Hedging Instruments:					
Interest Rate Swaps	$ 6,500	N/A	$ 287	$ 93	$ 201
Hedged Items:					
Trust Preferred Loans (a)	N/A	$ 6,500(b)	N/A	$ (92)(c)	$ (199)(c)

Gains/(Losses)

(Dollars in thousands)	Notional	Assets	Liabilities	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Loan Portfolio Hedging					
Hedging Instruments:					
Interest Rate Swaps	$ 6,500	N/A	$ 600	$ 40	$ 144
Hedged Items:					
Trust Preferred Loans (a)	N/A	$ 6,500(b)	N/A	$ (39)(c)	$ (142)(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 September 30, 2016 and 2015, the derivative liabilities associated with the sales of Visa Class B shares were $6.5 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 September 30, 2016 and 2015, these loans were valued at $2.6 million and $2.8 million, respectively. The balance sheet amount and the gains/losses associated with these derivatives were not significant.

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Note 14 Derivatives (Continued)

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 $80.8 million of assets and $66.7 million of liabilities on September 30, 2016, and $93.1 million of assets and $79.7 million of liabilities on September 30, 2015. As of September 30, 2016 and 2015, FHN had received collateral of $156.9 million in both periods and posted collateral of $68.4 million and $79.9 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 $80.5 million of assets and $23.8 million of liabilities on September 30, 2016, and $93.1 million of assets and $20.2 million of liabilities on September 30, 2015. As of September 30, 2016 and 2015, FHN had received collateral of $156.9 million in both periods and posted collateral of $28.4 million and $24.6 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 following tables.

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Note 14 Derivatives (Continued)

The following table provides details of derivative assets and collateral received as presented on the Consolidated Condensed Statements of Condition as of September 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)	**$ 148,883**	**$**	**$ 148,883**	**$ (8,823)**	**$ (125,095)**	**$ 14,965**
2015 (b)	136,098		136,098	(9,748)	(121,401)	4,949

(a) Included in Derivative assets on the Consolidated Condensed Statements of Condition. As of September 30, 2016 and 2015, $11.9 million and $16.5 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 details of derivative liabilities and collateral pledged as presented on the Consolidated Condensed Statements of Condition as of September 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)	**$ 127,352**	**$**	**$ 127,352**	**$ (8,823)**	**$ (57,298)**	**$ 61,231**
2015 (b)	120,234		120,234	(9,748)	(78,211)	32,275

(a) Included in Derivative liabilities on the Consolidated Condensed Statements of Condition. As of September 30, 2016 and 2015, $17.5 million and $20.7 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 details of Securities purchased under agreements to resell as presented on the Consolidated Condensed Statements of Condition and collateral pledged by counterparties as of September 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	**$ 802,815**	**$**	**$ 802,815**	**$ (1,632)**	**$ (792,851)**	**$ 8,332**
2015	793,098		793,098	(2,909)	(782,844)	7,345

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

				Gross amounts not offset in the Statements of Condition
	Gross amounts	Gross amounts	Net amounts of liabilities presented	Offsetting securities

(Dollars in thousands)	of recognized liabilities	offset in the Statements of Condition	in the Statements of Condition	purchased under agreements to resell	Securities Collateral	Net amount
Securities sold under agreements to repurchase:						
2016	**$ 341,998**	**$**	**$ 341,998**	**$ (1,632)**	**$ (340,047)**	**$ 319**
2015	332,329		332,329	(2,909)	(329,420)	

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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 tables provide details, by collateral type, of the remaining contractual maturity of Securities sold under agreements to repurchase as of September 30:

	September 30, 2016		
(Dollars in thousands)	Overnight and Continuous	Up to 30 Days	Total
Securities sold under agreements to repurchase:			
U.S. treasuries	**$ 38,382**	**$**	**$ 38,382**
Government agency issued MBS	**289,341**		**289,341**
Government agency issued CMO		**14,275**	**14,275**
Total Securities sold under agreements to repurchase	**$ 327,723**	**$ 14,275**	**$ 341,998**

	September 30, 2015		
(Dollars in thousands)	Overnight and Continuous	Up to 30 Days	Total
Securities sold under agreements to repurchase:			
U.S. treasuries	$ 23,812	$	$ 23,812
Government agency issued CMO	297,578	10,939	308,517
Total Securities sold under agreements to repurchase	$ 321,390	$ 10,939	$ 332,329

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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 September 30, 2016:

	September 30, 2016			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Trading securities - fixed income:				
U.S. treasuries	$	$ 110,538	$	$ 110,538
Government agency issued MBS		478,756		478,756
Government agency issued CMO		266,284		266,284
Other U.S. government agencies		121,460		121,460
States and municipalities		93,448		93,448
Corporate and other debt		246,153	5	246,158
Equity, mutual funds, and other		1,112		1,112
Total trading securities - fixed income		1,317,751	5	1,317,756
Trading securities - mortgage banking			2,779	2,779
Loans held-for-sale		214	22,536	22,750
Securities available-for-sale:				
U.S. treasuries		100		100
Government agency issued MBS		1,940,357		1,940,357
Government agency issued CMO		1,901,144		1,901,144
Equity, mutual funds, and other	24,636			24,636
Total securities available-for-sale	24,636	3,841,601		3,866,237
Other assets:				
Mortgage servicing rights			1,246	1,246
Deferred compensation assets	31,892			31,892
Derivatives, forwards and futures	11,759			11,759
Derivatives, interest rate contracts		148,972		148,972
Derivatives, other		5		5
Total other assets	43,651	148,977	1,246	193,874
Total assets	$ 68,287	$ 5,308,543	$ 26,566	$ 5,403,396
Trading liabilities - fixed income:				
U.S. treasuries	$	$ 508,895	$	$ 508,895
Government agency issued MBS		199		199

Other U.S. government agencies		7,934		7,934
States and municipalities		143		143
Corporate and other debt		185,055		185,055
Total trading liabilities - fixed income		702,226		702,226
Other liabilities:				
Derivatives, forwards and futures	10,924			10,924
Derivatives, interest rate contracts		127,352		127,352
Derivatives, other		13	6,540	6,553
Total other liabilities	10,924	127,365	6,540	144,829
Total liabilities	$ 10,924	$ 829,591	$ 6,540	$ 847,055

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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 September 30, 2015:

	September 30, 2015			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Trading securities - fixed income:				
U.S. treasuries	$	$ 97,211	$	$ 97,211
Government agency issued MBS		265,290		265,290
Government agency issued CMO		283,927		283,927
Other U.S. government agencies		113,739		113,739
States and municipalities		65,255		65,255
Trading Loans		16,943		16,943
Corporate and other debt		381,470	5	381,475
Equity, mutual funds, and other		742		742
Total trading securities - fixed income		1,224,577	5	1,224,582
Trading securities - mortgage banking			4,598	4,598
Loans held-for-sale			26,789	26,789
Securities available-for-sale:				
U.S. treasuries		100		100
Government agency issued MBS		945,951		945,951
Government agency issued CMO		2,535,436		2,535,436
Other U.S. government agencies			1,446	1,446
States and municipalities		7,655	1,500	9,155
Equity, mutual funds, and other	25,840			25,840
Total securities available-for-sale	25,840	3,489,142	2,946	3,517,928
Other assets:				
Mortgage servicing rights			1,993	1,993
Deferred compensation assets	25,972			25,972
Derivatives, forwards and futures	16,335			16,335
Derivatives, interest rate contracts		136,121		136,121
Derivatives, other		92		92
Total other assets	42,307	136,213	1,993	180,513
Total assets	$ 68,147	$ 4,849,932	$ 36,331	$ 4,954,410
Trading liabilities - fixed income:				
U.S. treasuries	$	$ 478,759	$	$ 478,759

Government agency issued MBS		1,481		1,481
Other U.S. government agencies		6,482		6,482
Corporate and other debt		301,841		301,841
Total trading liabilities - fixed income		788,563		788,563
Other liabilities:				
Derivatives, forwards and futures	15,921			15,921
Derivatives, interest rate contracts		120,234		120,234
Derivatives, other			4,810	4,810
Total other liabilities	15,921	120,234	4,810	140,965
Total liabilities	$ 15,921	$ 908,797	$ 4,810	$ 929,528

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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 September 30, 2016 and 2015, on a recurring basis are summarized as follows:

	Three Months Ended September 30, 2016				
(Dollars in thousands)	Trading securities	Loans held-for-sale	Securities available-for-sale	Mortgage servicing rights, net	Net derivative liabilities
Balance on July 1, 2016	$ 2,826	$ 25,738	$ 1,500	$ 1,406	$ (6,835)
Total net gains/(losses) included in:					
Net income	304	1,604			(4)
Purchases		198			
Settlements	(346)	(2,146)	(1,500)	(160)	299
Net transfers into/(out of) Level 3		(2,858)(b)			
Balance on September 30, 2016	$ 2,784	$ 22,536	$	$ 1,246	$ (6,540)
Net unrealized gains/(losses) included in net income	$ 244(a)	$ 1,604(a)	$	$	$ (4)(c)

	Three Months Ended September 30, 2015				
(Dollars in thousands)	Trading securities	Loans held-for-sale	Securities available-for-sale	Mortgage servicing rights, net	Net derivative liabilities
Balance on July 1, 2015	$ 4,929	$ 26,525	$ 3,060	$ 2,158	$ (4,810)
Total net gains/(losses) included in:					
Net income	57	803			(302)
Other comprehensive income/(loss)			(16)		
Purchases		1,902			
Settlements	(383)	(1,664)	(98)	(165)	302
Net transfers into/(out of) Level 3		(777)(b)			
Balance on September 30, 2015	$ 4,603	$ 26,789	$ 2,946	$ 1,993	$ (4,810)
Net unrealized gains/(losses) included in net income	$ 57(a)	$ 803(a)	$	$	$ (302)(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 generally 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 nine months ended September 30, 2016 and 2015, on a recurring basis are summarized as follows:

	Nine Months Ended September 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	506	2,375		31	(2,627)
Purchases		673			
Sales				(205)	
Settlements	(2,099)	(4,643)	(1,500)	(421)	897
Net transfers into/(out of) Level 3		(3,287)(b)			
Balance on September 30, 2016	$ 2,784	$ 22,536	$	$ 1,246	$ (6,540)
Net unrealized gains/(losses) included in net income	$ 324(a)	$ 2,375(a)	$	$	$ (2,627)(c)

	Nine Months Ended September 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	296	2,193			(466)
Other comprehensive income/(loss)			(44)		
Purchases		3,080			
Settlements	(1,335)	(4,483)	(317)	(524)	896
Net transfers into/(out of) Level 3		(1,911)(b)			
Balance on September 30, 2015	$ 4,603	$ 26,789	$ 2,946	$ 1,993	$ (4,810)
Net unrealized gains/(losses) included in net income	$ 296(a)	$ 2,193(a)	$	$	$ (466)(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 generally reflect movements out of recurring loans held-for-sale and into real estate acquired by foreclosure (level 3 nonrecurring).
(c) Included in Other expense.

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 September 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 September 30, 2016				Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
(Dollars in thousands)	Level 1	Level 2	Level 3	Total	Net gains/(losses)	Net gains/(losses)
Loans held-for-sale - first mortgages	$	$	$ 671	$ 671	$ 10	$ 17
Loans, net of unearned income (a)			31,797	31,797	461	(3,249)
Real estate acquired by foreclosure (b)			13,678	13,678	(711)	(1,561)
Other assets (c)			28,285	28,285	(788)	(2,325)
					$ (1,028)	$ (7,118)

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Note 16 Fair Value of Assets & Liabilities (Continued)

	Carrying value at September 30, 2015				Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
(Dollars in thousands)	Level 1	Level 2	Level 3	Total	Net gains/(losses)	Net gains/(losses)
Loans held-for-sale - first mortgages	$	$	$ 726	$ 726	$ 10	$ 48
Loans, net of unearned income (a)			27,898	27,898	1,195	2,729
Real estate acquired by foreclosure (b)			25,872	25,872	(706)	(2,366)
Other assets (c)			27,825	27,825	(439)	(1,383)
					$ 60	$ (972)

(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 September 30, 2016 and 2015:

(Dollars in Thousands)

Level 3 Class	Fair Value at September 30, 2016	Valuation Techniques	Unobservable Input	Values Utilized
Trading securities - mortgage	$ 2,779	Discounted cash flow	Prepayment speeds	34% - 46%
			Discount rate	30% - 57%
Loans held-for-sale - residential real estate	23,207	Discounted cash flow	Prepayment speeds - First mortgage	2% - 20%
			Prepayment speeds - HELOC	5% - 15%
			Foreclosure losses	47% - 57%
			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	6,540	Discounted cash flow	Visa covered litigation resolution amount	$4.4 billion - $5.2 billion
			Probability of resolution scenarios	10% - 30%
			Time until resolution	27 - 57 months
Loans, net of unearned income (a)	31,797	Appraisals from comparable properties	Marketability adjustments for specific properties	0% - 10% of appraisal
		Other collateral	Borrowing base certificates	20% - 50% of gross

		valuations	adjustment	value
			Financial Statements/Auction values adjustment	0% - 25% of reported value
Real estate acquired by foreclosure (b)	13,678	Appraisals from comparable properties	Adjustment for value changes since appraisal	0% - 10% of appraisal
Other assets (c)	28,285	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 September 30, 2015	Valuation Techniques	Unobservable Input	Values Utilized
Trading securities - mortgage	$ 4,598	Discounted cash flow	Prepayment speeds	43% - 45%
			Discount rate	6% - 59%
Loans held-for-sale - residential real estate	27,515	Discounted cash flow	Prepayment speeds - First mortgage	2% - 20%
			Prepayment speeds - HELOC	5% - 15%
			Foreclosure Losses	45% - 55%
			Loss severity trends - First mortgage	20% - 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)	27,898	Appraisals from comparable properties	Marketability adjustments for specific properties	0% - 10% of appraisal
		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)	25,872	Appraisals from comparable properties	Adjustment for value changes since appraisal	0% - 10% of appraisal
Other assets (c)	27,825	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.

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

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Note 16 Fair Value of Assets & Liabilities (Continued)

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 and forward delivery commitments 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.

	September 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	$ 22,750	$ 34,241	$ (11,491)
Nonaccrual loans	6,638	12,850	(6,212)
Loans 90 days or more past due and still accruing	22	26	(4)

	September 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	$ 26,789	$ 41,350	$ (14,561)
Nonaccrual loans	7,206	13,712	(6,506)
Loans 90 days or more past due and still accruing	2,677	3,822	(1,145)

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 September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Changes in fair value included in net income:				
Mortgage banking noninterest income				
Loans held-for-sale	**$ 1,604**	$ 803	**$ 2,375**	$ 2,193

For the three months ended September 30, 2016, and 2015, the amounts for residential real estate loans held-for-sale include a gain of $.5 million and a loss of $.2 million, respectively, in pretax earnings that are attributable to changes in instrument-specific credit risk. For the nine months ended September 30, 2016, and 2015, the amounts for loans held-for-sale include gains of $.7 million and $.5 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.

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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, including committed bids for specific loans or loan portfolios. 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.

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

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Note 16 Fair Value of Assets & Liabilities (Continued)

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 remaining 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 September 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 FHN s 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 FHN.

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Note 16 Fair Value of Assets & Liabilities (Continued)

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 September 30, 2016 and 2015.

	September 30, 2016				
	Book	Fair Value			
(Dollars in thousands)	Value	Level 1	Level 2	Level 3	Total
Assets:					
Loans, net of unearned income and allowance for loan losses					
Commercial:					
Commercial, financial and industrial	$ 12,031,432	$	$	$ 11,937,281	$ 11,937,281
Commercial real estate	2,033,175			2,009,820	2,009,820
Consumer:					
Consumer real estate	4,525,136			4,455,675	4,455,675
Permanent mortgage	419,511			410,302	410,302
Credit card & other	344,976			345,971	345,971
Total loans, net of unearned income and allowance for loan losses	19,354,230			19,159,049	19,159,049
Short-term financial assets:					
Interest-bearing cash	219,834	219,834			219,834
Federal funds sold	27,097		27,097		27,097
Securities purchased under agreements to resell	802,815		802,815		802,815
Total short-term financial assets	1,049,746	219,834	829,912		1,049,746
Trading securities (a)	1,320,535		1,317,751	2,784	1,320,535
Loans held-for-sale	155,215		46,681	108,534	155,215
Securities available-for-sale (a) (b)	4,027,594	24,636	3,841,601	161,357	4,027,594
Securities held-to-maturity	14,340			15,042	15,042
Derivative assets (a)	160,736	11,759	148,977		160,736
Other assets:					
Tax credit investments	90,824			89,879	89,879
Deferred compensation assets	31,892	31,892			31,892
Total other assets	122,716	31,892		89,879	121,771
Nonearning assets:					
Cash & due from banks	327,639	327,639			327,639
Fixed income receivables	91,997		91,997		91,997

Accrued interest receivable	64,511		64,511		64,511
Total nonearning assets	484,147	327,639	156,508		484,147
Total assets	$ 26,689,259	$ 615,760	$ 6,341,430	$ 19,536,645	$ 26,493,835
Liabilities:					
Deposits:					
Defined maturity	$ 1,325,079	$	$ 1,334,178	$	$ 1,334,178
Undefined maturity	20,249,101		20,249,101		20,249,101
Total deposits	21,574,180		21,583,279		21,583,279
Trading liabilities (a)	702,226		702,226		702,226
Short-term financial liabilities:					
Federal funds purchased	538,284		538,284		538,284
Securities sold under agreements to repurchase	341,998		341,998		341,998
Other short-term borrowings	792,736		792,736		792,736
Total short-term financial liabilities	1,673,018		1,673,018		1,673,018
Term borrowings:					
Real estate investment trust-preferred	46,015			49,350	49,350
Term borrowings - new market tax credit investment	18,000			18,240	18,240
Borrowings secured by residential real estate	26,062			24,759	24,759
Other long term borrowings	975,574		965,124		965,124
Total term borrowings	1,065,651		965,124	92,349	1,057,473
Derivative liabilities (a)	144,829	10,924	127,365	6,540	144,829
Other noninterest-bearing liabilities:					
Fixed income payables	68,897		68,897		68,897
Accrued interest payable	15,376		15,376		15,376
Total other noninterest-bearing liabilities	84,273		84,273		84,273
Total liabilities	$ 25,244,177	$ 10,924	$ 25,135,285	$ 98,889	$ 25,245,098

(a) Classes are detailed in the recurring and nonrecurring measurement tables.
(b) Level 3 includes restricted investments in FHLB-Cincinnati stock of $87.9 million and FRB stock of $68.6 million.

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Note 16 Fair Value of Assets & Liabilities (Continued)

	September 30, 2015				
	Book	Fair Value			
(Dollars in thousands)	Value	Level 1	Level 2	Level 3	Total
Assets:					
Loans, net of unearned income and allowance for loan losses					
Commercial:					
Commercial, financial and industrial	$ 9,538,832	$	$	$ 9,473,702	$ 9,473,702
Commercial real estate	1,462,696			1,447,848	1,447,848
Consumer:					
Consumer real estate	4,731,464			4,535,337	4,535,337
Permanent mortgage	443,817			413,188	413,188
Credit card & other	337,869			339,527	339,527
Total loans, net of unearned income and allowance for loan losses	16,514,678			16,209,602	16,209,602
Short-term financial assets:					
Interest-bearing cash	596,689	596,689			596,689
Federal funds sold	64,438		64,438		64,438
Securities purchased under agreements to resell	793,098		793,098		793,098
Total short-term financial assets	1,454,225	596,689	857,536		1,454,225
Trading securities (a)	1,229,180		1,224,577	4,603	1,229,180
Loans held-for-sale (a)	124,308			124,308	124,308
Securities available-for-sale (a) (b)	3,673,641	25,840	3,489,142	158,659	3,673,641
Securities held-to-maturity	4,313			5,404	5,404
Derivative assets (a)	152,548	16,335	136,213		152,548
Other assets:					
Tax credit investments	98,341			58,030	58,030
Deferred compensation assets	25,972	25,972			25,972
Total other assets	124,313	25,972		58,030	84,002
Nonearning assets:					
Cash & due from banks	256,342	256,342			256,342
Fixed income receivables	83,547		83,547		83,547
Accrued interest receivable	65,956		65,956		65,956
Total nonearning assets	405,845	256,342	149,503		405,845
Total assets	$ 23,683,051	$ 921,178	$ 5,856,971	$ 16,560,606	$ 23,338,755

Liabilities:					
Deposits:					
Defined maturity	$ 1,033,896	$	$ 1,039,007	$	$ 1,039,007
Undefined maturity	17,831,324		17,831,324		17,831,324
Total deposits	18,865,220		18,870,331		18,870,331
Trading liabilities (a)	788,563		788,563		788,563
Short-term financial liabilities:					
Federal funds purchased	520,992		520,992		520,992
Securities sold under agreements to repurchase	332,329		332,329		332,329
Other short-term borrowings	99,887		99,887		99,887
Total short-term financial liabilities	953,208		953,208		953,208
Term borrowings:					
Real estate investment trust-preferred	45,947			49,350	49,350
Term borrowings - new market tax credit investment	18,000			18,158	18,158
Borrowings secured by residential real estate	48,491			41,848	41,848
Other long term borrowings	1,227,502		1,214,410		1,214,410
Total term borrowings	1,339,940		1,214,410	109,356	1,323,766
Derivative liabilities (a)	140,965	15,921	120,234	4,810	140,965
Other noninterest-bearing liabilities:					
Fixed income payables	95,346		95,346		95,346
Accrued interest payable	25,358		25,358		25,358
Total other noninterest-bearing liabilities	120,704		120,704		120,704
Total liabilities	$ 22,208,600	$ 15,921	$ 22,067,450	$ 114,166	$ 22,197,537

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

(a) Classes are detailed in the recurring and nonrecurring measurement tables.
(b) Level 3 includes restricted investments in FHLB-Cincinnati stock of $87.9 million and FRB stock of $65.8 million.

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Note 16 Fair Value of Assets & Liabilities (Continued)

	Contractual Amount		Fair Value	
(Dollars in thousands)	**September 30, 2016**	September 30, 2015	**September 30, 2016**	September 30, 2015
Unfunded Commitments:				
Loan commitments	**$ 8,012,345**	$ 7,962,431	**$ 1,998**	$ 2,694
Standby and other commitments	**287,499**	281,740	**3,867**	4,424

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

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FIRST HORIZON NATIONAL CORPORATION

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

GENERAL INFORMATION

First Horizon National Corporation (FHN) began as a community bank chartered in 1864 and as of September 30, 2016, was one of the 40 largest publicly traded banking organizations in the United States in terms of asset size.

FHN s two major brands First Tennessee and FTN Financial - provide customers with a broad range of products and services. First Tennessee provides retail and commercial banking services throughout Tennessee and other selected markets and is the largest bank headquartered in the state of Tennessee. FTN Financial (FTNF) is an industry leader in fixed income sales, trading, and strategies for institutional clients in the U.S. and abroad.

FHN is composed of the following operating segments:

Regional banking 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, along with 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.

Fixed income provides financial services for depository and non-depository institutions through the sale and distribution of fixed income securities, loan sales, portfolio advisory services, and derivative sales.

Corporate consists of unallocated corporate expenses, expense on subordinated debt issuances, bank-owned life insurance (BOLI), 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.

Non-strategic includes exited businesses and wind-down national consumer lending activities, other discontinued products, and loan portfolios and service lines.

On October 27, 2016, FTN Financial announced its plan to acquire Coastal Securities (Coastal), a national leader in the trading, securitization, and analysis of Small Business Administration (SBA) loans, for approximately $160 million in cash. Based in Houston, TX, Coastal also trades United States Department of Agriculture (USDA) loans and fixed income products and provides municipal underwriting and advisory services to its clients. Coastal s government-guaranteed loan products, combined with FTN Financial s existing SBA trading activities, will establish an additional major product sector for FTN Financial. The transaction, which is subject to regulatory approvals, the affirmative vote of Coastal Financial Holdings, Inc. (CFH) shareholders and other customary closing conditions, is expected to close in early 2017.

On September 16, 2016, FTBNA acquired approximately $535 million of UPB in restaurant franchise loans from GE Capital. The acquired loans were combined with existing FTBNA relationships to establish a franchise finance specialty lending business.

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 5.1 million shares of FHN common stock and $23.9 million in cash in a transaction valued at $96.7 million. The fair value of the acquired assets totaled $445.3 million, including $281.9 million in loans. FHN also assumed $344.1 million of TAB deposits. FHN s operating results include the operating results of the acquired assets and assumed liabilities of the acquired entity subsequent to the acquisition date. Refer to Note 2 Acquisitions and Divestitures in this report and in Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2015 for additional information.

For the purpose of this management s discussion and analysis (MD&A), earning assets have been expressed as averages, unless otherwise noted, and loans have been disclosed net of unearned income. The following financial discussion should be read with the accompanying unaudited Consolidated Condensed Financial Statements and Notes in this report. Additional information including the 2015 financial statements, notes, and MD&A is provided in Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2015.

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ADOPTION OF ACCOUNTING UPDATES

Effective January 1, 2016, FHN retroactively adopted the requirements of ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which 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. FHN previously classified debt issuance costs within Other assets in the Consolidated Condensed Statements of Condition, consistent with prior requirements. The retrospective application of ASU 2015-03 resulted in a decrease to Other assets and Term borrowings of $1.2 million at September 30, 2015 and $2.5 million at December 31, 2015 versus previously reported amounts. The adoption of ASU 2015-03 had no effect on FHN s recognition of interest expense. All prior periods and associated narrative in this report have been revised to reflect this change. For additional information see Note 1 Financial Information in this report.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements with respect to FHN s beliefs, plans, goals, expectations, and estimates. Forward-looking statements are statements that are not a representation of historical information but instead pertain to future operations, strategies, financial results, or other developments. The words believe, expect, anticipate, intend, estimate, should, is likely, will, going forward, and other expressions that indicate future events and t identify forward-looking statements.

Forward-looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, operational, economic and competitive uncertainties and contingencies, many of which are beyond FHN s control, and many of which, with respect to future business decisions and actions (including acquisitions and divestitures), are subject to change. Examples of uncertainties and contingencies include, among other important factors: global, general and local economic and business conditions, including economic recession or depression; the stability or volatility of values and activity in the residential housing and commercial real estate markets; potential requirements for FHN to repurchase, or compensate for losses from, previously sold or securitized mortgages or securities based on such mortgages; potential claims relating to the foreclosure process; potential claims relating to participation in government programs, especially lending or other financial services programs; expectations of and actual timing and amount of interest rate movements, including the slope and shape of the yield curve, which can have a significant impact on a financial services institution; market and monetary fluctuations, including fluctuations in mortgage markets; inflation or deflation; customer, investor, regulatory, and legislative responses to any or all of these conditions; the financial condition of borrowers and other counterparties; competition within and outside the financial services industry; geopolitical developments including possible terrorist activity; natural disasters; effectiveness and cost-efficiency of FHN s hedging practices; technological changes; fraud, theft, or other incursions through conventional, electronic, or other means affecting FHN directly or affecting its customers, business counterparties or competitors; demand for FHN s product offerings; new products and services in the industries in which FHN operates; the increasing use of new technologies to interact with customers and others; and critical accounting estimates. Other factors are those inherent in originating, selling, servicing, and holding loans and loan-based assets, including prepayment risks, pricing concessions, fluctuation in U.S. housing and other real estate prices, fluctuation of collateral values, and changes in customer profiles. Additionally, the actions of the Securities and Exchange Commission (SEC), the Financial Accounting Standards Board (FASB), the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Federal Reserve or Fed), the FDIC, the Financial Industry Regulatory Authority (FINRA), the U.S. Department of the Treasury (U.S. Treasury), the Municipal Securities Rulemaking Board (MSRB), the Consumer Financial Protection Bureau (CFPB), the Financial Stability Oversight Council (Council), the Public Company Accounting Oversight Board (PCAOB) and other regulators and agencies; pending, threatened, or possible future regulatory, administrative, and judicial outcomes, actions, and proceedings; changes in laws and regulations applicable to FHN; and FHN s success in executing its business plans and strategies and managing the risks involved in the foregoing, could cause actual results to differ, perhaps materially, from those contemplated by the forward-looking statements.

FHN assumes no obligation to update or revise any forward-looking statements that are made in this Quarterly Report or otherwise from time to time. Actual results could differ and expectations could change, possibly materially, because of one or more factors, including those presented in this Forward-Looking Statements section, in other sections of this MD&A, in other parts of and exhibits to this Quarterly Report on Form 10-Q for the period ended September 30, 2016, and in documents incorporated into this Quarterly Report.

FINANCIAL SUMMARY

In third quarter 2016, FHN reported net income available to common shareholders of $63.2 million, or $.27 per diluted share, compared to net income available to common shareholders of $58.8 million or $.25 per diluted share in third quarter 2015. Results improved in third quarter 2016 relative to the prior year due to an increase in revenue somewhat offset by higher noninterest expense and loan loss provision expense. Additionally, the provision for income taxes increased $19.7 million in third quarter 2016 compared to the prior year. For the nine months ended September 30, 2016, FHN reported net income available to common shareholders of $167.6 million or $.71 per diluted share compared to a net income of $32.6 million or $.14 per diluted share for the nine months ended September 30, 2015. The improvement in results for the year-to-date period was the result of lower expenses in 2016, discussed below, coupled with an increase in revenue compared to the prior year. The provision for income taxes increased $74.6 million for the year-to-date period of 2016.

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Total revenue increased $45.1 million and $89.7 million, respectively, for the three and nine months ended September 30, 2016 to $333.7 million and $961.9 million. The increase in revenue for both periods was driven by higher fixed income product revenue and an increase in net interest income (NII).

Noninterest expense for the three months ended September 30, 2016 and 2015 was $233.6 million and $215.4 million, respectively. The expense increase in third quarter 2016 compared to third quarter 2015 was primarily driven by higher personnel-related expenses within the Fixed Income and Regional Banking operating segments, somewhat offset by a net decline in accruals related to loss contingencies and litigation matters. Noninterest expense for the nine months ended September 30, 2016 and 2015 was $687.3 million and $810.1 million, respectively. The decrease in expense for the year-to-date period was largely the result of a net decline in accruals related to contingencies and litigation matters primarily associated with the 2015 DOJ/HUD settlement of potential claims related to FHN s underwriting and origination of FHA-insured mortgage loans. Additionally, a $31.6 million mortgage repurchase provision expense reversal recognized in 2016 also favorably impacted expenses, but was somewhat offset by higher personnel expenses in the Fixed Income and Regional Banking segments relative to 2015.

On a consolidated basis, credit quality remained strong in 2016, with non-performing loans, net charge-offs, delinquencies, and the allowance for loan losses all decreasing relative to the prior year. The loan loss provision was $4.0 million in third quarter 2016 compared to $1.0 million in third quarter 2015. For the nine months ended September 30, 2016 and 2015, the loan loss provision was $11.0 million and $8.0 million, respectively.

Return on average common equity and return on average assets for third quarter 2016 were 10.80 percent and .97 percent, respectively, compared to 10.83 percent and .99 percent, respectively, in third quarter 2015. During the nine months ended September 30, 2016, the return on average common equity and the return on average assets were 9.81 percent and ..89 percent, respectively, compared to 2.02 percent and .24 percent, respectively, during the nine months ended September 30, 2015. Common Equity Tier 1, Tier 1, and Total capital ratios were 9.81 percent, 11.03 percent, and 12.09 percent, respectively, in third quarter 2016 compared to 10.71 percent, 12.11 percent, and 13.38 percent, respectively, in third quarter 2015. Average assets increased to $27.6 billion in third quarter 2016 from $25.3 billion in third quarter 2015. Average loans increased 12 percent and 9 percent to $18.7 billion and $17.9 billion, respectively, for the three and nine months ended September 30, 2016 relative to the prior year. Average core deposits increased 11 percent and 10 percent to $20.6 billion and $19.9 billion, respectively, for the three and nine months ended September 30, 2016, relative to the same periods in 2015. Average Shareholders equity increased to $2.7 billion in third quarter 2016 from $2.5 billion in third quarter 2015.

BUSINESS LINE REVIEW

Regional Banking

Pre-tax income within the regional banking segment increased to $102.1 million during third quarter 2016 from $85.7 million in third quarter 2015. For the nine months ended September 30, 2016, the regional bank s pre-tax income was $238.0 million compared to $230.8 million for the nine months ended September 30, 2015. The increase in pre-tax income for the three and nine months ended September 30, 2016 was driven by an increase in revenue which more than offset higher expenses.

Total revenue increased 12 percent, or $27.6 million, to $255.6 million in third quarter 2016, from $228.0 million in third quarter 2015, primarily driven by an increase in NII. The increase in NII was primarily due to higher average balances of commercial loans. Noninterest income increased to $65.1 million in third quarter 2016 from $62.8 million in third quarter 2015. The increase was largely the result of a $1.8 million gain on the sale of properties and higher fee income associated with derivative sales recognized in 2016. Additionally, bankcard income increased in third quarter

2016, relative to the prior year, largely driven by a significant new relationship. A decline in fees from deposit transactions and cash management activities and lower brokerage, management fees, and commission income from the Bank s wealth management group offset a portion of the increase in revenue. The decrease in fees from deposit transactions and cash management activities was primarily due to lower non-sufficient funds (NSF)/overdraft fees in the current year as a result of changes in consumer behavior. The decline in brokerage, management fees, and commission income was the result of market conditions and lower variable annuity sales as practices are adjusted to meet the standards of a changing regulatory environment. Additionally, a shift in product and fee structures caused a temporary decline in revenues but better met client needs and should result in revenue streams over the life of the product.

Provision expense increased to $8.5 million in third quarter 2016 from $6.7 million in third quarter 2015. The increase in provision during third quarter 2016 compared to prior year was primarily driven by increased reserves related to loan growth within the commercial portfolio which was mitigated by continued historically low levels of net charge-offs.

Noninterest expense was $145.0 million in third quarter 2016 up from $135.6 million in third quarter 2015. The expense increase was driven in part by increases in personnel expenses associated with a year-over-year increase in headcount related to the TAB acquisition and higher incentive expense associated with strategic hires and retention initiatives in growth markets. Personnel expenses in 2015 were favorably impacted by gains recognized in third quarter 2015 related to an employee benefit plan amendment which also contributed to the year-over-year increase in expenses. These increases were somewhat offset by a $4.3 million reversal of loss accruals related to legal matters recognized in third quarter 2016, as well as a decline in allocated pension expense compared to third quarter 2015 due to a change in the discount rates used in the calculation of pension and postretirement interest costs. Additionally, a decrease in the provision for unfunded commitments also favorably impacted expenses in 2016 relative to the prior year.

Total revenue increased 8 percent to $726.8 million for the nine months ended September 30, 2016 from $674.5 million for the nine months ended September 30, 2015, driven by an increase in NII. The increase in NII was primarily driven by higher average balances of commercial loans, but was somewhat offset by lower yielding commercial loans, a decrease in net interest income associated with payments received on non-performing loans recognized on a cash basis, and lower loan fees. Noninterest income was $185.7 million and $188.9 million for the nine months ended September 30, 2016 and 2015, respectively. The year-to-date decrease in noninterest income was primarily driven by a decline in fees from deposit transactions and cash management activities and lower brokerage, management fees, and commission income, somewhat offset by increases in bankcard income, fee income from derivative sales, and a $1.2 million net increase in gains on the sales of bank properties relative to 2015.

Provision expense for the nine months ended September 30, 2016 increased to $34.2 million from $28.7 million for the nine months ended September 30, 2015. The factors affecting the 2016 quarterly provision expense also drove provision expense for the 2016 year-to-date period.

Noninterest expense was $454.6 million and $415.0 million for the nine months ended September 30, 2016 and 2015, respectively. The increase in expense was largely attributable to a $17.7 million increase in accruals related to loss contingencies and litigation matters and an increase in personnel-related expenses driven by the same factors affecting the quarterly increase in expenses discussed above. Also, FHN recognized a $4.2 million net increase in impairment and lease abandonment charges related to branch closures during the year-to-date period of 2016 which also contributed to the expense increase relative to 2015. These increases were partially offset by a decline in the provision for unfunded commitments, a decrease in expenses associated with foreclosed real estate driven by smaller negative fair value marks recognized in 2016 relative to the prior year, and a decrease in contract employment expenses due in large part to the completion of a large operations efficiency project in 2015.

Fixed Income

Pre-tax income in the fixed income segment was $14.9 million in third quarter 2016 compared to a pre-tax loss of $5.1 million during third quarter 2015. For the nine months ended September 30, 2016, fixed income s pre-tax income was $44.4 million compared to $15.1 million for the nine months ended September 30, 2015. Fixed income product revenue increased 37 percent to $59.0 million in third quarter 2016 from $43.0 million in third quarter 2015, as average daily revenue (ADR) increased to $922 thousand in third quarter 2016 from $671 thousand in third quarter 2015. For the nine months ended September 30, 2016, fixed income product revenue was $185.9 million, up from $143.2 million in the prior year. The increase in fixed income product revenue in both periods reflects more favorable market conditions in 2016 resulting in increased performance across all product sectors, particularly FTN Financial s agency and mortgage desks. Other product revenue increased to $13.1 million in third quarter 2016 from $8.8 million in third quarter 2015 primarily due to increases in fees from loan sales, derivative sales, and portfolio advisory services. For the nine months ended September 30, 2016 and 2015, other product revenue was $31.4 million and $26.2 million, respectively. The increase in the year-to-date period was driven by the same factors impacting the quarterly increase.

Noninterest expense decreased slightly to $59.6 million in third quarter 2016 from $59.8 million in third quarter 2015, as higher variable compensation expenses connected with the increase in fixed income product revenue in third quarter 2016 were more than offset by an $11.6 million charge to litigation and regulatory matters recognized in third quarter 2015 related to the resolution of a legal matter. Noninterest expense was $181.1 million and $165.8 million for the nine months ended September 30, 2016 and 2015, respectively. Higher variable compensation expenses connected with the increase in fixed income product revenue in 2016 were the primary driver of the expense increase relative to 2015; that increase however, was somewhat offset by the charge in 2015 to litigation and regulatory matters previously mentioned.

Corporate

The pre-tax loss for the corporate segment was $27.9 million and $22.3 million for the quarter ended September 30, 2016 and 2015, respectively, and was $77.0 million and $74.8 million for the nine months ended September 30, 2016 and 2015, respectively.

Net interest expense decreased to $18.2 million in third quarter 2016 from $19.0 million in third quarter 2015 primarily due to a decrease in average term borrowings outstanding. Noninterest income (including securities gain/losses) was $5.1 million in third quarter 2016, down from $8.6 million in third quarter 2015. The decrease in noninterest income was driven by a $5.8 million gain on the extinguishment of junior subordinated notes underlying $200 million of trust preferred debt recognized in third quarter 2015, the impact of which was somewhat offset by an increase in deferred compensation income in 2016 versus 2015. Deferred compensation income fluctuates with changes in the market value of the underlying investments and is mirrored by changes in deferred compensation expense which is included in personnel expense.

Noninterest expense increased to $14.8 million in third quarter 2016 from $11.8 million in third quarter 2015, primarily driven by an increase in personnel-related expenses due in large part to an increase in deferred compensation expense, which is directionally consistent with the increase in deferred compensation income described above.

Net interest expense decreased to $48.4 million from $52.5 million for the year-to-date period ended September 30, 2016 driven by a decrease in average term borrowings outstanding and a larger AFS securities portfolio. Noninterest income (including securities gain/losses) was $15.8 million for the nine months ended September 30, 2016, compared to $17.8 million for the nine months ended September 30, 2015. The decrease in noninterest income was driven by the third quarter 2015 gain on extinguishment of debt previously mentioned, partially offset by an increase in deferred compensation income and an increase in securities gains. The securities gains increase was primarily the result of a $1.7 million gain recognized in first quarter 2016 on an exchange of approximately $294 million of AFS debt securities.

Noninterest expense was $44.4 million for the nine months ended September 30, 2016 compared to $40.2 million for the nine months ended September 30, 2015. The increase in noninterest expense was largely due to an increase in deferred compensation expense as well as a $2.1 million net increase in negative valuation adjustments associated with derivatives related to prior sales of Visa Class B shares.

Non-Strategic

The non-strategic segment had pre-tax income of $7.1 million in third quarter 2016 compared to $13.9 million in third quarter 2015. For the nine months ended September 30, 2016, the non-strategic segment had pre-tax income of $58.3 million compared to a pre-tax loss of $117.0 million for the nine months ended September 30, 2015. The decline for the quarterly period was driven by an increase in expenses in 2016 and lower revenue. The improvement for the nine months ended September 30, 2016 was driven by a net expense reversal for the year-to-date period which more than offset the decrease in NII.

Total revenue was $16.7 million and $16.4 million in third quarter 2016 and third quarter 2015, respectively. NII declined 27 percent to $10.5 million in third quarter 2016 from $14.3 million in third quarter 2015, consistent with the run-off of the non-strategic loan portfolios. Noninterest income (including securities gains/losses) increased $4.2 million from $2.0 million in third quarter 2015 to $6.2 million in third quarter 2016. The increase in noninterest income was driven by $4.4 million of gains primarily related to recoveries associated with prior legacy mortgage servicing sales.

The provision for loan losses within the non-strategic segment was a provision credit of $4.5 million in third quarter 2016 compared to a provision credit of $5.7 million in the prior year. Overall, the non-strategic segment continues to reflect stable performance combined with lower loan balances as reserves declined $31.7 million to $50.2 million as of September 30, 2016, nearly all of which was within the consumer real estate portfolio. Losses remain historically low as the non-strategic segment had net recoveries in 2016 versus $1.0 million in net charge-offs in third quarter a year ago.

Noninterest expense was $14.2 million in third quarter 2016 compared to $8.2 million in third quarter 2015. The increase in expense was driven by a $5.4 million net increase in accruals related to loss contingencies and litigation matters and higher legal expenses in third quarter 2016 compared to the prior year.

Total revenue was $42.2 million and $51.3 million for the nine months ended September 30, 2016 and 2015, respectively, with NII declining 23 percent to $32.6 million for the 2016 year-to-date period from $42.4 million for the same period of 2015, consistent with the run-off of the non-strategic loan portfolios. Noninterest income (including securities gains/losses) increased to $9.6 million for the nine months ended September 30, 2016 from $9.0 million. The increase in noninterest income was largely attributable to the gain recognized in third quarter 2016 that were primarily related to recoveries associated with prior legacy mortgage servicing sales previously mentioned, partially offset by a gain recognized in second quarter 2015 related to the sale of property.

The provision for loan losses within the non-strategic segment was a provision credit of $23.2 million for the nine months ended September 30, 2016 compared to a provision credit of $20.7 million for the nine months ended September 30, 2015. Overall, the non-strategic segment continues to reflect declining balances, primarily within the consumer real estate portfolio, combined with stable performance within the legacy portfolio. Losses remain historically low as the non-strategic segment had net recoveries for the nine months ended September 30, 2016 versus $3.1 million in net charge-offs a year ago.

Noninterest expense was $7.2 million for the nine months ended September 30, 2016 compared to $189.0 million for the nine months ended September 30, 2015. The decline in noninterest expense was primarily due to $162.5 million of loss accruals recognized in 2015 associated with the settlement reached with DOJ/HUD. Additionally, $31.6 million of mortgage repurchase and foreclosure

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expenses were reversed in 2016 primarily due to the settlements of certain repurchase claims. These transactions which were favorable to the year-over-year variance were somewhat offset by $8.0 million of accruals related to loss contingencies and litigation matters and higher legal expenses recognized in 2016. Generally, most other expense categories declined given the continued wind-down of the legacy businesses.

INCOME STATEMENT REVIEW

Consolidated revenue was $333.7 million in third quarter 2016, a 16 percent increase from $288.7 million in third quarter 2015 largely driven by increases in net interest income and fixed income product revenue. Total expenses increased 8 percent to $233.6 million in third quarter 2016 from $215.4 million in third quarter 2015. The expense increase was primarily due to higher personnel expenses, somewhat offset by a decrease in accruals related to loss contingencies and litigation matters. For the nine months ended September 30, 2016, total consolidated revenue was $961.9 million, up 10 percent from $872.2 million for the nine months ended September 30, 2015, driven by increases in fixed income product revenue and net interest income. Total expenses for the nine months ended September 30, 2016 decreased 15 percent to $687.3 million from $810.1 million for the nine months ended September 30, 2015 primarily driven by a decline in accruals related to loss contingencies and litigation matters and the mortgage repurchase provision expense reversal in 2016 previously mentioned, somewhat offset by higher personnel expenses.

NET INTEREST INCOME

Net interest income increased 13 percent to $185.2 million in third quarter 2016 from $163.6 million in third quarter 2015. For the nine months ended September 30, 2016, NII increased 10 percent to $533.5 million from $487.1 million. For the three and nine months ended September 30, 2016, the increase in NII was the result of loan growth within the regional bank s portfolios, the favorable impact of the December Fed rate increase, a decline in long-term funding costs, and a larger AFS securities portfolio. These increases were partially offset by the continued run-off of the non-strategic loan portfolios, a decrease in net interest income associated with payments received on non-performing loans recognized on a cash basis, and a decline in the dividend rate on FRB stock compared to 2015. Average earning assets were $25.3 billion and $23.2 billion in third quarters 2016 and 2015, respectively, and $24.8 billion and $23.3 billion for the nine months ended September 30, 2016 and 2015, respectively. The increase in both periods relative to the prior year was primarily driven by loan growth within the regional bank, but was also impacted by a larger securities portfolio and an increase in securities purchased under agreements to resell. These increases were somewhat offset by continued run-off of the non-strategic loan portfolios and a decrease in average balances of excess cash held at the Fed. For the year-to-date period, a decline in average fixed income trading securities also offset a portion of the increase in average earning assets.

For purposes of computing yields and the net interest margin, FHN adjusts net interest income to reflect tax exempt income on an equivalent pre-tax basis which provides comparability of net interest income arising from both taxable and tax-exempt sources. The consolidated net interest margin improved to 2.96 percent in third quarter 2016 from 2.85 percent in third quarter 2015. The net interest spread increased to 2.83 percent in third quarter 2016 from 2.72 percent in third quarter 2015, and the impact of free funding was 13 basis points in both periods. For the nine months ended September 30, 2016, the net interest margin was 2.92 percent, up 8 basis points from 2.84 percent in the comparable period of 2015. The increase in NIM for both the three and nine month periods of 2016 was driven by several factors including the December Fed rate increase, a decrease in average excess cash held at the Fed during 2016, the favorable impact of a decline in long-term funding costs, and larger average balances of loans to mortgage companies. A decrease in interest income associated with payments received on non-performing loans recognized on a cash basis relative to 2015 and run-off of the non-strategic loan portfolios negatively impacted NIM in the quarter and year-to-date periods of 2016.

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Table 1- Net Interest Margin

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	**2016**	2015
Assets:				
Earning assets:				
Loans, net of unearned income:				
Commercial loans	**3.63%**	3.50%	**3.60%**	3.53%
Consumer loans	**4.08**	3.94	**4.08**	3.95
Total loans, net of unearned income	**3.76**	3.65	**3.74**	3.68
Loans held-for-sale	**4.36**	4.16	**4.23**	4.22
Investment securities:				
U.S. treasuries	**0.97**	0.97	**0.98**	0.97
U.S. government agencies	**2.34**	2.45	**2.40**	2.46
States and municipalities (a)	**9.01**	2.84	**7.55**	3.03
Corporate bonds	**5.25**		**5.25**	
Other (b)	**2.44**	4.10	**2.50**	4.10
Total investment securities	**2.36**	2.54	**2.42**	2.54
Trading securities	**2.46**	2.98	**2.65**	2.80
Other earning assets:				
Federal funds sold	**0.99**	1.00	**1.12**	0.99
Securities purchased under agreements to resell (c)	**0.08**	(0.06)	**0.11**	(0.11)
Interest bearing cash	**0.49**	0.24	**0.49**	0.24
Total other earning assets	**0.25**	0.12	**0.29**	0.10
Interest income / total earning assets	**3.30%**	3.20%	**3.27%**	3.19%
Liabilities:				
Interest-bearing liabilities:				
Interest-bearing deposits:				
Savings	**0.23%**	0.15%	**0.22%**	0.16%
Other interest-bearing deposits	**0.19**	0.09	**0.18**	0.09
Time deposits	**0.59**	0.65	**0.59**	0.68
Total interest-bearing core deposits	**0.23**	0.15	**0.23**	0.17
Certificates of deposit $100,000 and more	**1.06**	0.85	**1.00**	0.84
Federal funds purchased	**0.52**	0.25	**0.51**	0.25
Securities sold under agreements to repurchase	**0.09**	0.04	**0.09**	0.06
Fixed income trading liabilities	**1.76**	2.34	**1.91**	2.21
Other short-term borrowings	**0.61**	0.84	**0.70**	0.64

Term borrowings	**2.67**	2.55	**2.52**	2.47
Interest expense / total interest-bearing liabilities	**0.47**	0.48	**0.48**	0.49
Net interest spread	**2.83%**	2.72%	**2.79%**	2.70%
Effect of interest-free sources used to fund earning assets	**0.13**	0.13	**0.13**	0.14
Net interest margin (d)	**2.96%**	2.85%	**2.92%**	2.84%

(a) 2016 increases driven by payoff of lower-yielding municipal bonds in fourth quarter 2015.
(b) 2016 decreases driven by a decline in the dividend rate of FHN s holdings of federal reserve bank stock.
(c) 2015 rates driven by negative market rates on reverse repurchase agreements.
(d) Calculated using total net interest income adjusted for FTE assuming a statutory federal income tax rate of 35 percent and, where applicable, state income taxes.

FHN s net interest margin is primarily impacted by balance sheet factors such as interest-bearing cash levels, deposit balances, trading inventory, commercial loan volume, as well as loan fees, cash basis income, and changes in short-term interest rates. FHN s balance sheet is positioned to benefit primarily from a rise in short-term interest rates. For fourth quarter 2016 and into 2017, an increase in NIM will depend on the extent of Fed interest rate increases, as well as levels of interest-bearing cash and trading inventory balances.

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PROVISION FOR LOAN LOSSES

The provision for loan losses is the charge to earnings that management determines to be necessary to maintain the ALLL at a sufficient level reflecting management s estimate of probable incurred losses in the loan portfolio. The provision for loan losses was $4.0 million in third quarter 2016 compared to $1.0 million in third quarter 2015. For the nine months ended September 30, 2016 and 2015, the provision for loan losses was $11.0 million and $8.0 million, respectively. In third quarter 2016 aggregate performance of the loan portfolio remained strong and the balances of legacy loan portfolios declined $447.3 million resulting in a decline in the allowance for loan losses of 4 percent (on a period-end basis). Although asset quality metrics were strong in both periods, improvement slowed in 2016 and the commercial loan growth partially offset the positive effect of improvement on the allowance. For additional information about the provision for loan losses refer to the Regional Banking and Non-Strategic sections of the Business Line Review section in this MD&A. For additional information about general asset quality trends refer to Asset Quality - Trend Analysis of Third Quarter 2016 Compared to Third Quarter 2015 in this MD&A.

NONINTEREST INCOME

Noninterest income (including securities gains/(losses)) was $148.5 million in third quarter 2016 and represented 45 percent of total revenue compared to $125.1 million in third quarter 2015 and 43 percent of total revenue. For the nine months ended September 30, 2016, noninterest income was $428.4 million and represented 45 percent of total revenue compared to $385.1 million and 44 percent of total revenue for the nine months ended September 30, 2015. The increase in noninterest income for both periods was primarily driven by higher fixed income product revenue.

Fixed Income Noninterest Income

Fixed income noninterest income increased 38 percent in third quarter 2016 to $71.7 million from $51.8 million in third quarter 2015. For the nine months ended September 30, 2016 and 2015, fixed income noninterest income was $216.6 million and $169.7 million, respectively, representing a 28 percent increase. Fixed income product revenue was up in both periods reflecting more favorable market conditions in 2016 resulting in increased performance across all product sectors, particularly FTN Financial s agency and mortgage desks. Revenue from other products increased to $12.7 million and $30.8 million for the three and nine months ended September 30, 2016 from $8.8 million and $26.5 million for the three and nine months ended September 30, 2015, largely driven by increases in fees from loan sales, derivative sales, and portfolio advisory services. The following table summarizes FHN s fixed income noninterest income for the three and nine months ended September 30, 2016 and 2015.

Table 2 - Fixed Income Noninterest Income

	Three Months Ended September 30		Percent	Nine Months Ended September 30		Percent
(Dollars in thousands)	**2016**	2015	Change	**2016**	2015	Change
Noninterest income:						
Fixed income	**$ 59,003**	$ 42,969	37%	**$ 185,865**	$ 143,164	30%
Other product revenue	**12,745**	8,835	44%	**30,773**	26,500	16%
Total fixed income noninterest income	**$ 71,748**	$ 51,804	38%	**$ 216,638**	$ 169,664	28%

Deposit Transactions and Cash Management

Fees from deposit transactions and cash management activities were $27.2 million and $81.0 million during the three and nine months ended September 30, 2016 down from $28.9 million and $83.9 million for the three and nine months ended September 30, 2015. The decrease in both periods was primarily driven by lower NSF fee income driven by changes in consumer behavior.

Brokerage, Management Fees and Commissions

Income from brokerage, management fees and commissions was $10.8 million in third quarter 2016, down 7 percent from $11.6 million in third quarter 2015. For the nine months ended September 30, 2016, income from brokerage, management fees and commissions was $31.9 million, a 10 percent decline from $35.5 million for the nine months ended September 30, 2015. The decline in income in both periods was primarily driven by a reduction in annuity income as a result of market conditions and lower variable annuity sales as practices are adjusted to meet the standards of a changing regulatory environment. The decline was also affected by a shift in product and fee structures, which caused a temporary decline in revenues but better met client needs and should result in revenue streams over the life of the product.

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Bankcard Income

Bankcard income increased 13 percent and 9 percent to $6.3 million and $18.1 million for the three and nine months ended September 30, 2016, respectively, from $5.6 million and $16.6 million for the three and nine months ended September 30, 2015. The increase in bankcard income was primarily driven by a significant new relationship.

Securities Gains/(Losses)

Securities gains/(losses) for the three months ended September 30, 2016 and 2015 were not material. For the nine months ended September 30, 2016, FHN recognized net securities gains of $1.5 million which was primarily the result of a $1.7 million gain on an exchange of approximately $294 million of AFS debt securities. Securities gains/(losses) for the nine months ended September 30, 2015, were not material.

Other Noninterest Income

Other income includes revenues from ATM and interchange fees, electronic banking fees, mortgage banking, revenue related to deferred compensation plans (which are mirrored by changes in noninterest expense), gains/(losses) from the extinguishment of debt and various other fees.

Revenue from all other income and commissions was $17.5 million and $36.4 million for the three and nine months ended September 30, 2016 compared to $13.3 million and $37.1 million for the three and nine months ended September 30, 2015. For the third quarter 2016 all other income and commissions was favorably impacted by increases in mortgage banking and deferred compensation income, a $1.8 million gain on the sales of properties, and higher fee income associated with derivative sales. These increases were somewhat offset by a $5.8 million gain on the extinguishment of junior subordinated notes underlying $200 million of trust preferred debt recognized in third quarter 2015. The increase in Mortgage banking income was largely driven by recoveries recognized in third quarter 2016 associated with prior legacy mortgage servicing sales. Deferred compensation income fluctuates with changes in the market value of the underlying investments and is mirrored by changes in deferred compensation expense which is included in personnel expense.

For the nine months ended September 30, 2016, the same factors driving the increases in Mortgage banking and deferred compensation income also favorably impacted other income and commissions relative to the prior year, but were offset by the $5.8 million gain on the extinguishment of debt previously mentioned and a $1.5 million net decrease in gains on the sale of properties. The following table provides detail regarding FHN s other income.

Table 3 - Other Income

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Other income:				
Mortgage banking	**$ 5,524**	$ 761	**$ 7,395**	$ 2,721
ATM interchange fees	**3,081**	2,998	**8,918**	8,784
Electronic banking fees	**1,398**	1,479	**4,176**	4,366
Deferred compensation (a)	**1,038**	(2,309)	**2,162**	(1,311)
Letter of credit fees	**981**	978	**3,157**	3,633

Gain on extinguishment of debt		5,794		5,794
Other	**5,518**	3,550	**10,594**	13,096
Total	**$ 17,540**	$ 13,251	**$ 36,402**	$ 37,083

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

(a) Deferred compensation market value adjustments are mirrored by changes in deferred compensation expense which is included in employee compensation, incentives, and benefits expense.

NONINTEREST EXPENSE

Noninterest expense was $233.6 million in third quarter 2016 compared to $215.4 million in third quarter 2015. The increase in noninterest expense was primarily driven by higher personnel expenses, partially offset by a decline in accruals related to loss contingencies and litigation matters recognized in third quarter 2016 relative to the prior year.

For the nine months ended September 30, 2016, noninterest expense was $687.3 million compared to $810.1 million for the nine months ended September 30, 2015. The decrease in noninterest expense for the year-to-date period was primarily the result of a reduction in accruals related to loss contingencies and litigation matters and, to a lesser extent, a mortgage repurchase and foreclosure provision expense reversal recognized in second quarter 2016, somewhat offset by higher personnel expenses and an increase in other noninterest expense.

Employee Compensation, Incentives, and Benefits

Employee compensation, incentives, and benefits (personnel expense), which is generally the largest component of noninterest expense, increased 25 percent, or $28.9 million, to $145.1 million in third quarter 2016 from $116.2 million in third quarter 2015. For the nine months ended September 30, 2016, personnel expense increased 13 percent, or $50.0 million, to $425.6 million. The increase in personnel expense for both the quarterly and year-to-date periods was primarily driven by an increase in variable compensation associated with higher fixed income product sales revenue. A year-over-year increase in headcount related to the TAF acquisition, higher incentive expense associated with strategic hires and retention initiatives within the regional bank, and higher deferred compensation expenses in the current year relative to 2015 also contributed to the increase in personnel expense in 2016. Personnel expenses in 2015 were favorably impacted by an $8.3 million gain related to an amendment of certain employee benefit plans recognized in third quarter 2015 which also contributed to the year-over-year increase in personnel expenses. These increases were partially offset by a decline in pension expense relative to 2015 due to a change in the discount rates used in the calculation of pension and postretirement interest costs.

Equipment Rentals, Depreciation, and Maintenance

Equipment rentals, depreciation, and maintenance expense declined 14 percent and 13 percent, respectively in the three and nine months ended September 30, 2016 to $6.1 million and $19.4 million. The decrease for both the quarterly and year-to-date periods was driven by a decrease in depreciation expense and refunds from an equipment rental vendor recognized in third quarter 2016.

Advertising and Public Relations

Expenses associated with advertising and public relations were $6.1 million in third quarter 2016, up from $4.8 million in third quarter 2015. For the nine months ended September 30, 2016 and 2015 advertising and public relations expense was $15.5 million and $13.9 million, respectively. In third quarter 2016, FHN recognized higher advertising and public relations expense due in large part to a promotional branding campaign which contributed to an increase in both the quarter and year-to-date periods.

Legal Fees

Legal fees increased to $4.8 million in third quarter 2016 from $3.6 million in third quarter 2015. For the year-to-date periods, legal expense was $15.5 million in 2016 compared to $11.7 million in 2015. Legal fees fluctuate quarterly based on the status and composition of cases.

Contract Employment and Outsourcing

Expenses associated with contract employment and outsourcing were $2.4 million in third quarter 2016, down from $3.4 million in third quarter 2015. For the nine months ended September 30, 2016, contract employment and outsourcing expenses were $7.4 million, down from $11.3 million for the nine months ended September 30, 2015. The decrease was attributable to a lower number of technology-related projects in 2016 relative to the prior year coupled with the completion of a large operations efficiency project in 2015.

Repurchase and Foreclosure Provision

For the three months ended September 30, 2016, the mortgage repurchase and foreclosure provision was not material. For the nine months ended September 30, 2016, FHN recognized a $31.6 million pre-tax expense reversal of mortgage repurchase and foreclosure provision primarily as a result of the settlement of certain repurchase claims in second quarter 2016, which favorably impacted expenses for the year-to-date period of 2016. The mortgage repurchase and foreclosure provision was $0 for both the quarter and year-to-date periods in 2015.

Other Noninterest Expense

All other expenses decreased to $16.5 million in third quarter 2016 from $27.1 million in third quarter 2015, primarily driven by a $10.7 million decline in accruals related to loss contingencies and litigation matters. For the nine months ended September 30, 2016,

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all other expenses were $79.8 million compared to $220.8 million for the nine months ended September 30, 2015 and were primarily driven by a $147.6 million net decline in litigation-related loss accruals largely associated with the 2015 DOJ/HUD settlement previously mentioned. FHN recognized a $4.5 million net increase in fixed asset impairments and lease abandonment charges related to branch closures in 2016 from the prior year which offset a portion of the expense decline for the year-to-date periods of 2016 compared to 2015. Additionally, a $2.1 million increase in negative valuation adjustments associated with derivatives related to prior sales of Visa Class B shares resulted in higher expenses in 2016. The following table provides detail regarding FHN s other expenses.

Table 4 - Other Expense

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Other expense:				
Travel and entertainment	**$ 2,478**	$ 2,451	**$ 7,035**	$ 6,697
Customer relations	**1,442**	1,477	**4,804**	4,296
Employee training and dues	**1,360**	1,272	**4,088**	3,853
Supplies	**1,158**	974	**3,114**	2,781
Tax credit investments	**788**	439	**2,325**	1,383
Miscellaneous loan costs	**676**	726	**1,958**	1,821
Litigation and regulatory matters	**260**	10,922	**25,785**	173,422
Other	**8,326**	8,835	**30,669**	26,565
Total	**$ 16,488**	$ 27,096	**$ 79,778**	$ 220,818

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

INCOME TAXES

FHN recorded an income tax provision of $28.5 million in third quarter 2016, compared to $8.9 million in third quarter 2015. For the nine months ended September 30, 2016, FHN recorded an income tax provision of $82.8 million compared to $8.2 million for the nine months ended September 30, 2015. The effective tax rates for the quarters ended September 30, 2016 and 2015 were approximately 30 percent and 12 percent, respectively. For the nine months ended September 30, 2016 and 2015 the effective tax rates were approximately 31 percent and 15 percent, respectively. Since pre-tax income is the most important component in determining the effective tax rate, the comparison of the tax rate from period to period, by itself, will not provide meaningful information unless pre-tax income is fairly consistent. The company s effective tax rate is favorably affected by recurring items such as bank-owned life insurance, tax-exempt income, and credits and other tax benefits from affordable housing investments. The company s effective tax rate also may be affected by items that may occur in any given period but are not consistent from period to period, such as changes in the deferred tax asset valuation allowance and changes in unrecognized tax benefits. The increase in the effective tax rates in the quarterly and year-to-date periods of 2016 compared to the same periods of 2015 was primarily driven by the change in pre-tax income levels. For third quarter 2016 the increase in the effective tax rate was also due to a decline in negative discrete tax benefits relative to third quarter 2015.

A deferred tax asset (DTA) or deferred tax liability (DTL) is recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax consequence is calculated by applying enacted statutory tax rates, applicable to future years, to these temporary differences. As of September 30, 2016, FHN s gross DTA (net of a valuation allowance) and gross DTL were $289.2 million and $132.0 million, respectively, resulting in a net DTA of $157.2 million at September 30, 2016, compared with $233.4 million at September 30, 2015. The decline in the DTA in third quarter 2016, relative to third quarter 2015, was primarily driven by an increase in unrealized gains within the available-for-sale securities portfolio, funding of FHN s pension plan, and a decline in loss reserves.

As of September 30, 2016, FHN had federal tax credit carryforwards which will expire in varying amounts between 2030 and 2035, state income tax net operating loss (NOL) carryforwards which will expire in varying amounts between 2016 and 2035, and federal capital loss carryforwards, which will expire in 2017. As of September 30, 2016 and 2015, FHN established a valuation allowance of $40.3 million and $40.4 million, respectively, against its federal capital loss carryforwards. FHN s DTA after valuation allowance was $289.2 million and $347.5 million as of September 30, 2016 and 2015, respectively. Based on current analysis, FHN believes that its ability to realize the remaining DTA is more likely than not. FHN monitors its DTA and the need for a valuation allowance on a quarterly basis. A significant adverse change in FHN s taxable earnings outlook could result in the need for further valuation allowances. In the event FHN is able to determine that the deferred tax assets are realizable in the future in excess of their net recorded amount, FHN would make an adjustment to the valuation allowance, which would reduce the provision for income taxes.

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STATEMENT OF CONDITION REVIEW

Total period-end assets were $28.4 billion on September 30, 2016, up 12 percent and 9 percent, respectively from $25.4 billion on September 30, 2015 and $26.2 billion on December 31, 2015. Average assets increased to $27.6 billion in third quarter 2016 from $25.3 billion in third quarter 2015 and $26.2 billion in fourth quarter 2015. The increase in average assets compared to third quarter 2015 is primarily attributable to increases in the loan portfolios. A larger investment securities portfolio also contributed to the increase in assets relative to third quarter 2015, but was somewhat offset by a decline in interest-bearing cash. Generally, the same line items driving the year-over-year increase in average assets drove the increase in average assets compared to fourth quarter 2015; however, the trading portfolio decreased between third quarter 2016 and fourth quarter 2015.

EARNING ASSETS

Earning assets consist of loans, investment securities, other earning assets such as trading securities, interest-bearing cash, and loans HFS. Average earning assets increased to $25.3 billion in third quarter 2016 from $23.2 billion a year earlier and $23.9 billion in fourth quarter 2015. A more detailed discussion of the major line items follows.

Loans

Period-end loans increased to $19.6 billion as of September 30, 2016 from $16.7 billion on September 30, 2015 and $17.7 billion on December 31, 2015. Average loans for third quarter 2016 were $18.7 billion compared to $16.6 billion for third quarter 2015 and $16.9 billion for fourth quarter 2015. The increase in average and period-end loan balances was primarily due to loan growth within the regional bank s commercial portfolios and also loans added through the TAB acquisition in fourth quarter 2015, partially offset by run-off of portfolios within the non-strategic segment. On a period-end basis loans added through the third quarter 2016 GE Capital purchase also contributed to the increase in loans.

Table 5 - Average Loans

	Quarter Ended September 30, 2016		Quarter Ended September 30, 2015		Quarter Ended December 31, 2015		3Q16 changes vs	
(Dollars in thousands)	**Amount**	**Percent of total**	Amount	Percent of total	Amount	Percent of total	3Q15	4Q15
Commercial:								
Commercial, financial, and industrial	**$ 11,281,691**	**60%**	$ 9,539,650	57%	$ 9,720,115	57%	18%	16%
Commercial real estate	**1,997,121**	**11**	1,425,528	9	1,612,730	10	40%	24%
Total commercial	**13,278,812**	**71**	10,965,178	66	11,332,845	67	21%	17%
Consumer:								
Consumer real estate (a)	**4,601,420**	**25**	4,838,984	29	4,798,067	28	(5)%	(4)%
Permanent mortgage	**436,952**	**2**	475,684	3	455,299	3	(8)%	(4)%
Credit card, OTC and other	**362,166**	**2**	353,148	2	356,948	2	3%	1%

Total consumer	**5,400,538**	**29**	5,667,816	34	5,610,314	33	(5)%	(4)%
Total loans, net of unearned income	**$ 18,679,350**	**100%**	$ 16,632,994	100%	$ 16,943,159	100%	12%	10%

(a) Balances as of September 30, 2016 and 2015, and December 31, 2015, include $40.8 million, $63.2 million, and $56.0 million of restricted loans, respectively.

C&I loans are the largest component of the commercial portfolio comprising 85 percent and 87 percent of average commercial loans in third quarter 2016 and 2015, respectively. C&I loans increased 18 percent, or $1.7 billion, from third quarter 2015 due to net loan growth within several of the regional bank s portfolios including general commercial, corporate, correspondent banking, and franchise finance, as well as higher average balances of loans to mortgage companies. Commercial real estate loans increased 40 percent or $.6 billion to $2.0 billion in third quarter 2016 because of growth in expansion markets and with increased funding under existing commitments. In addition, the fourth quarter 2015 TAB acquisition contributed to the increase.

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Average consumer loans declined 5 percent, or $.3 billion, from a year ago to $5.4 billion in third quarter 2016. The consumer real estate portfolio (home equity lines and installment loans) declined $237.6 million, to $4.6 billion, as the continued wind-down of portfolios within the non-strategic segment outpaced a $231.4 million increase in real estate installment loans from new originations within the regional bank. The permanent mortgage portfolio slightly declined to $437.0 million in third quarter 2016 driven by run-off of legacy assets within non-strategic offset by some growth in mortgage loans within regional banking. Credit Card and Other slightly increased to $362.2 million in third quarter 2016.

Investment Securities

FHN s investment portfolio consists principally of debt securities including government agency issued mortgage-backed securities (MBS) and government agency issued collateralized mortgage obligations (CMO), substantially all of which are classified as available-for-sale (AFS). FHN utilizes the securities portfolio as a source of income, liquidity and collateral for repurchase agreements, for public funds, and as a tool for managing risk of interest rate movements. Period-end investment securities increased 10 percent and 2 percent, respectively, from $3.7 billion on September 30, 2015 and $3.9 billion on December 31, 2015 to $4.0 billion on September 30, 2016. Average investment securities were $4.0 billion in third quarter 2016 compared to $3.7 billion in third quarter 2015 and $3.8 billion in fourth quarter 2015. Average investment securities represented 16 percent of earning assets in 2016 and 2015. The amount of securities purchased for the investment portfolio is largely driven by the desire to protect the value of non-rate sensitive liabilities and equity and maximize yield on FHN s excess liquidity without negatively affecting future yields while operating in this historically low interest rate environment.

Loans Held-for-Sale

Loans HFS consists of the mortgage warehouse (primarily repurchased government-guaranteed loans), small business, student, and home equity loans. The average balance of loans HFS increased to $132.4 million in third quarter 2016 from $126.1 million in third quarter 2015. On September 30, 2016 and 2015, loans HFS were $155.2 million and $124.3 million, respectively. The increase in both average and period-end loans HFS was largely driven by an increase in small business loans, partially offset by a smaller mortgage warehouse, and to a lesser extent declines in home equity and student loans.

Other Earning Assets

Other earning assets include trading securities, securities purchased under agreements to resell, federal funds sold (FFS), and interest-bearing deposits with the Fed and other financial institutions. Other earning assets decreased $258.6 million from third quarter 2015 and averaged $2.5 billion in third quarter 2016. The decrease was primarily driven by a decrease in interest bearing cash, but was somewhat offset by increases in securities purchased under agreements to resell (asset repos) and trading securities. Interest bearing cash was used to fund loan growth and purchases of AFS securities. Asset repos are used in fixed income trading activity and generally fluctuate with the level of fixed income trading liabilities (short-positions) as securities collateral from repo transactions are used to fulfill trades. Fixed income s trading inventory fluctuates daily based on customer demand. Other earning assets were $2.4 billion and $2.7 billion on September 30, 2016 and 2015, respectively, and $2.2 billion on December 31, 2015. The increase in other earning assets on a period-end basis relative to December 31, 2015 was primarily due to increases in fixed income trading inventory levels and asset repos, somewhat offset by lower levels of interest-bearing cash on September 30, 2016.

Non-earning assets

Period-end non-earning assets increased to $2.3 billion on September 30, 2016 from $2.2 billion on September 30, 2015.

Core Deposits

Average core deposits were $20.6 billion during third quarter 2016, up 11 percent from $18.5 billion during third quarter 2015. The increase in average core deposits was driven by several factors including FHN s decision to increase deposits in a third party network deposits sweep program, an increase in commercial customer deposits, and the addition of deposits associated with the fourth quarter 2015 TAB acquisition. The third party deposits program is an FDIC-insured deposit sweep program where financial institutions can receive unsecured deposits for the long-term (several years) and in larger-dollar increments. Period-end core deposits were $21.0 billion on September 30, 2016, up 13 percent from $18.6 billion on September 30, 2015.

Short-Term Funds

Average short-term funds (certificates of deposit greater than $100,000, FFP, securities sold under agreements to repurchase, trading liabilities, and other short-term borrowings) increased 21 percent to $2.5 billion in third quarter 2016 from $2.1 billion in third quarter 2015. The increase was largely driven by increases in CDs greater than $100,000 and an increase in FHLB borrowings as a result of increased loan demand. CDs greater than $100,000 increased $164.3 million to $518.6 million in third quarter 2016 from third quarter 2015 due in large part to the TAB acquisition in fourth quarter 2015. To a lesser extent increases in FFP and securities sold under agreements to repurchase also contributed to the year-over-year increase as additional sources of wholesale funding were used to fund loan growth. On average, short-term purchased funds accounted for 10 percent and 9 percent of FHN s funding (core deposits plus short-term purchased funds and term borrowings) in third quarter 2016 and 2015, respectively. Period-end short-term funds were $3.0 billion and $2.0 billion on September 30, 2016 and 2015, respectively. The increase in period-end balances was primarily driven by increases in FHLB borrowings and CDs greater than $100,000.

Term Borrowings

Term borrowings include senior and subordinated borrowings with original maturities greater than one year. Term borrowings were $1.1 billion on September 30, 2016 compared to $1.3 billion on September 30, 2015. Average term borrowings were $1.1 billion in third quarter 2016 compared to $1.5 billion in third quarter 2015. The decrease in average term borrowings primarily relates to $206 million of junior subordinated notes underlying $200 million of trust preferred debt that were called in third quarter 2015 and $250 million of FTBNA subordinated notes that matured in second quarter 2016.

Other Liabilities

Period-end other liabilities decreased to $.7 billion on September 30, 2016 from $.9 billion on September 30, 2015. Other liabilities decreased as the pension liability was reduced as a result of the third quarter 2016 $165 million qualified pension plan contribution. The qualified pension plan is now reflected as a prepaid pension asset. Additionally a decrease in the repurchase and foreclosure reserve also contributed to the year-over-year decline in other liabilities.

CAPITAL

Management s objectives are to provide capital sufficient to cover the risks inherent in FHN s businesses, to maintain excess capital to well-capitalized standards, and to assure ready access to the capital markets. Average equity was $2.7 billion in third quarter 2016 compared to $2.5 billion in third quarter 2015. Period-end equity increased $164.3 million from September 30, 2015 to $2.7 billion on September 30, 2016. The increase in period-end and average equity was primarily due to net income recognized since third quarter 2015 and $72.8 million of equity issued related to the TAF acquisition in October 2015. Additionally, an increase in unrealized gains associated with the AFS securities portfolio also increased period-end and average equity, but was somewhat offset by common and preferred dividends paid, share repurchases (discussed below), and an increase of net pension underfunding.

In January 2014, FHN s board of directors approved a share repurchase program which enables FHN to repurchase its common stock in the open market or in privately negotiated transactions, subject to certain conditions. In July 2015 and April 2016 the board increased and extended that program. The current program authorizes total purchases of up to $350 million and expires on January 31, 2018. During third quarter 2016, FHN repurchased $7.1 million of common shares under the program; during third quarter 2015, FHN did not repurchase any shares. Total purchases under this program through September 30, 2016 were $160.3 million.

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The following tables provide a reconciliation of Shareholders equity from the Consolidated Condensed Statements of Condition to Common Equity Tier 1, Tier 1 and Total Regulatory Capital as well as certain selected capital ratios:

Table 6 - Regulatory Capital and Ratios

(Dollars in thousands)	**September 30, 2016**	September 30, 2015	December 31, 2015
Shareholders equity	**$ 2,449,151**	$ 2,284,814	$ 2,344,155
FHN Non-cumulative perpetual preferred	**(95,624)**	(95,624)	(95,624)
Common equity	**$ 2,353,527**	$ 2,189,190	$ 2,248,531
Regulatory adjustments:			
Goodwill and other intangibles	**(166,693)**	(120,930)	(165,661)
Net unrealized (gains)/losses on securities	**(50,704)**	(32,196)	(3,394)
Minimum pension liability	**214,653**	208,588	217,586
Net unrealized (gains)/losses on cash flow hedges	**(3,121)**		
Disallowed deferred tax assets	**(20,281)**	(18,463)	(18,404)
Other	**(1,174)**		(78)
Common equity tier 1	**$ 2,326,207**	$ 2,226,189	$ 2,278,580
FHN Non-cumulative perpetual preferred	**95,624**	95,624	95,624
Qualifying noncontrolling interest - FTBNA preferred stock	**257,192**	260,456	260,794
Other deductions from tier 1	**(63,574)**	(66,075)	(62,857)
Tier 1 capital	**$ 2,615,449**	$ 2,516,194	$ 2,572,141
Tier 2 capital	**252,988**	265,160	264,574
Total regulatory capital	**$ 2,868,437**	$ 2,781,354	$ 2,836,715

	September 30, 2016		September 30, 2015		December 31, 2015	
	Ratio	**Amount**	Ratio	Amount	Ratio	Amount
Common Equity Tier 1						
First Horizon National Corporation	**9.81%**	**$ 2,326,207**	10.71%	$ 2,226,189	10.45%	$ 2,278,580
First Tennessee Bank National Association	**9.78**	**2,271,433**	10.81	2,176,646	10.81	2,284,646
Tier 1						
First Horizon National Corporation	**11.03**	**2,615,449**	12.11	2,516,194	11.79	2,572,141
First Tennessee Bank National Association	**10.80**	**2,508,584**	11.99	2,414,208	11.95	2,525,912
Total						
First Horizon National Corporation	**12.09**	**2,868,437**	13.38	2,781,354	13.01	2,836,715
First Tennessee Bank National Association	**11.76**	**2,731,397**	13.21	2,658,897	13.09	2,768,625
Tier 1 Leverage						

First Horizon National Corporation	**9.52**	**2,615,449**	9.95	2,516,194	9.85	2,572,141
First Tennessee Bank National Association	**9.43**	**2,508,584**	9.96	2,414,208	10.06	2,525,912
Risk-Weighted Assets						
First Horizon National Corporation		**23,716,102**		20,783,031		21,812,015
First Tennessee Bank National Association		**23,235,526**		20,127,008		21,143,459
Average Assets for Leverage						
First Horizon National Corporation		**27,481,309**		25,280,856		26,109,449
First Tennessee Bank National Association		**26,597,240**		24,244,742		25,105,163

Presentation of regulatory measures, even those which are not GAAP, provide a meaningful base for comparability to other financial institutions subject to the same regulations as FHN, as demonstrated by their use by banking regulators in reviewing capital adequacy of financial institutions. Although not GAAP terms, these regulatory measures are not considered non-GAAP under U.S. financial reporting rules as long as their presentation conforms to regulatory standards. Regulatory measures used in this MD&A include: Common Equity Tier 1 capital, generally defined as common equity less goodwill, other intangibles, and certain other required regulatory deductions; Tier 1 capital, generally defined as the sum of core capital (including common equity and instruments that

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cannot be redeemed at the option of the holder) adjusted for certain items under risk based capital regulations; and risk-weighted assets (RWA), which is a measure of total on- and off-balance sheet assets adjusted for credit and market risk, used to determine regulatory capital ratios.

Banking regulators define minimum capital ratios for bank holding companies and their bank subsidiaries. Based on the capital rules and definitions prescribed by the banking regulators, should any depository institution s capital ratios decline below predetermined levels, it would become subject to a series of increasingly restrictive regulatory actions. The system categorizes a depository institution s capital position into one of five categories ranging from well-capitalized to critically under-capitalized. In third quarter 2016, for an institution the size of FHN to qualify as well-capitalized, Common Equity Tier 1, Tier 1 Capital, Total Capital, and Leverage capital ratios must be at least 6.5 percent, 8 percent, 10 percent, and 5 percent, respectively. As of September 30, 2016, FHN and FTBNA had sufficient capital to qualify as a well-capitalized institution. Regulatory capital ratios decreased in third quarter 2016 relative to third quarter 2015 and fourth quarter 2015 due primarily to increases in risk-weighted assets from growth in earning assets, share repurchases and the phased-in implementation of the Basel III regulations partially offset by the impact of net income less dividends. For fourth quarter 2016 and through 2017, capital ratios are expected to remain significantly above well-capitalized standards.

Stress Testing

In March, 2014, the OCC, Federal Reserve, and FDIC issued final supervisory guidance for stress tests pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Reform Act). Under these requirements, bank holding companies with $10 billion to $50 billion in assets must conduct an annual stress test to determine whether capital is likely to be adequate to absorb losses under hypothetical economic scenarios provided by the regulators.

In July 2016, FHN submitted results of its annual Dodd-Frank Act Stress Test, commonly known as DFAST, to the OCC and the Federal Reserve. A summary of the results was posted in October 2016 to FHN s investor relations website. (Neither FHN s stress test posting, nor any other material found on FHN s website generally, is part of this quarterly report or incorporated herein.)

Pursuant to board authority, FHN may repurchase shares of its common stock from time to time and will evaluate the level of capital and take action designed to generate or use capital, as appropriate, for the interests of the shareholders, subject to legal and regulatory restrictions. FHN s board has not authorized a preferred stock purchase program. The following tables provide information related to securities repurchased by FHN during third quarter 2016:

Table 7 - Issuer Purchases of Common Stock

Compensation Plan-Related Repurchase Authority:

(Volume in thousands, except per share data)	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs	Maximum number of shares that may yet be purchased under the programs
2016				
July 1 to July 31	1	$ 13.98	1	28,349

August 1 to August 31	1	$ 14.96	1	28,348
September 1 to September 30	*	$ 15.11	*	28,348
Total	2	**$ 14.58**	2	

* - amount less than 500 shares
Compensation Plan Programs:

A consolidated compensation plan share purchase program was announced on August 6, 2004. This plan consolidated into a single share purchase program all of the previously authorized compensation plan share programs as well as the renewal of the authorization to purchase shares for use in connection with two compensation plans for which the share purchase authority had expired. The total amount authorized under this consolidated compensation plan share purchase program, inclusive of a program amendment on April 24, 2006, is 29.6 million shares calculated before adjusting for stock dividends distributed through January 1, 2011. The authorization has been reduced for that portion which relates to compensation plans for which no options remain outstanding. The shares may be purchased over the option exercise period of the various compensation plans on or before December 31, 2023. On September 30, 2016, the maximum number of shares that may be purchased under the program was 28.3 million shares. Purchases may be made in the open market or through privately negotiated transactions and are subject to market conditions, accumulation of excess equity, prudent capital management, and legal and regulatory restrictions. Management currently does not anticipate purchasing a material number of shares under this authority during fourth quarter 2016 or through 2017.

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Other Repurchase Authority:

(Dollar values and volume in thousands, except per share data)	Total number of shares purchased	Average price paid per share (a)	Total number of shares purchased as part of publicly announced programs	Maximum approximate dollar value that may yet be purchased under the programs
2016				
July 1 to July 31		N/A		$ 196,756
August 1 to August 31		N/A		$ 196,756
September 1 to September 30	468	$ 15.10	468	$ 189,690
Total	**468**	**$ 15.10**	**468**	

N/A - Not applicable

(a) Represents total costs including commissions paid.

Other Programs:

On January 22, 2014, FHN announced a $100 million share purchase authority with an expiration date of January 31, 2016. On July 21, 2015, FHN announced a $100 million increase in that authority along with an extension of the expiration date to January 31, 2017, and on April 26, 2016, FHN announced a $150 million increase and further extension to January 31, 2018. As of September 30, 2016, $160.3 million in purchases had been made under this authority at an average price per share of $12.86, $12.84 excluding commissions. Purchases may be made in the open market or through privately negotiated transactions and are subject to market conditions, accumulation of excess equity, prudent capital management, and legal and regulatory restrictions.

ASSET QUALITY - TREND ANALYSIS OF THIRD QUARTER 2016 COMPARED TO THIRD QUARTER 2015

Loan Portfolio Composition

FHN groups its loans into portfolio segments based on internal classifications reflecting the manner in which the ALLL is established and how credit risk is measured, monitored, and reported. From time to time, and if conditions are such that certain subsegments are uniquely affected by economic or market conditions or are experiencing greater deterioration than other components of the loan portfolio, management may determine the ALLL at a more granular level. Commercial loans are composed of commercial, financial, and industrial (C&I) and commercial real estate (CRE). Consumer loans are composed of consumer real estate; permanent mortgage; and credit card and other. FHN has a concentration of residential real estate loans (26 percent of total loans), the majority of which is in the consumer real estate portfolio (23 percent of total loans). Industry concentrations are discussed under the heading C&I below.

Consolidated key asset quality metrics for each of these portfolios can be found in Table 15 Asset Quality by Portfolio.

As economic and real estate conditions change, enhancements to underwriting and credit policies and guidelines may be necessary or desirable. Credit underwriting guidelines are outlined in Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2015, in the Loan Portfolio Composition discussion in the Asset Quality Section beginning on page 26 and continuing to page 32. FHN s credit underwriting guidelines and loan product offerings as of September 30, 2016, are generally consistent with those reported and disclosed in the Company s Form 10-K for the year ended December 31, 2015.

Acquired Loans

On September 16, 2016, FHN completed its acquisition of restaurant franchise loans from GE Capital. The acquisition included $537.4 million in unpaid principal balance of loans. Acquired loans were initially recorded at fair value which was estimated by discounting expected cash flows at the acquisition date. The expected cash flows include all contractually expected amounts and incorporate an estimate for future expected credit losses, pre-payment assumptions and yield requirement for a market participant, among other things. Because an expectation of credit losses is embedded in the fair value estimate, there is no carryover of allowance for loan losses. See Note 4 - Loans for additional information regarding the acquisition.

Certain loans acquired from GE Capital were designated as purchased credit-impaired (PCI) loans. PCI loans are loans that have exhibited deterioration of credit quality between origination and the time of acquisition and for which the timely collection of the interest and principal is no longer reasonably assured. FHN considered several factors when determining whether a loan met the definition of a PCI loan at the time of acquisition including accrual status, loan grade, delinquency trends, pre-acquisition charge-offs, as well as both originated versus refreshed credit scores and ratios when available.

On September 30, 2016, the unpaid principal balance and the carrying value of PCI loans (inclusive of the GE Capital loan purchase and two previous bank acquisitions) were $61.0 million and $56.1 million, respectively.

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The following is a description of each portfolio:

COMMERCIAL LOAN PORTFOLIOS

C&I

The C&I portfolio was $12.1 billion on September 30, 2016, and is comprised of loans used for general business purposes and primarily composed of relationship customers in Tennessee and other selected markets that are managed within the regional bank. Typical products include working capital lines of credit, term loan financing of owner-occupied real estate and fixed assets, and trade credit enhancement through letters of credit.

The following table provides the composition of the C&I portfolio by industry as of September 30, 2016 and 2015. For purposes of this disclosure, industries are determined based on the North American Industry Classification System (NAICS) industry codes used by Federal statistical agencies in classifying business establishments for the collection, analysis, and publication of statistical data related to the U.S. business economy.

Table 8 - C&I Loan Portfolio by Industry

	September 30, 2016		September 30, 2015	
(Dollars in thousands)	**Amount**	**Percent**	Amount	Percent
Industry:				
Loans to mortgage companies	**$ 2,479,819**	**20%**	$ 1,375,320	14%
Finance & insurance	**2,320,553**	**19**	2,135,759	22
Accommodation & food service (a)	**1,000,769**	**8**	379,834	4
Wholesale trade	**859,296**	**7**	780,918	8
Health care & social assistance	**824,704**	**7**	743,505	8
Real estate rental & leasing (b)	**773,055**	**6**	636,516	7
Manufacturing	**681,305**	**6**	685,702	7
Public administration	**562,670**	**5**	590,098	6
Other (transportation, education, arts, entertainment, etc) (c)	**2,616,127**	**22**	2,282,643	24
Total C&I loan portfolio	**$ 12,118,298**	**100%**	$ 9,610,295	100%

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

(a) Includes FHN s franchise finance loans which increased approximately $535 million as a result of the GE Capital loan acquisition
(b) Leasing, rental of real estate, equipment, and goods.
(c) Industries in this category each comprise less than 5 percent for 2016.

Industry Concentrations

Loan concentrations are considered to exist for a financial institution when there are loans to numerous borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. 39

percent of FHN s C&I portfolio (Finance and insurance plus Loans to mortgage companies) could be affected by items that uniquely impact the financial services industry. Except Finance and Insurance and Loans to Mortgage Companies , as discussed below, on September 30, 2016, FHN did not have any other concentrations of C&I loans in any single industry of 10 percent or more of total loans.

Finance and Insurance

The finance and insurance component represents 19 percent of the C&I portfolio and includes TRUPS (i.e., long-term unsecured loans to bank and insurance-related businesses), loans to bank holding companies, and asset-based lending to consumer finance companies. As of September 30, 2016, asset-based lending to consumer finance companies represents approximately $1.0 billion of the finance and insurance component.

TRUPS lending was originally extended as a form of bridge financing to participants in the pooled trust preferred securitization program offered primarily to smaller banking (generally less than $15 billion in total assets) and insurance institutions through FHN s fixed income business. Origination of TRUPS lending ceased in early 2008. Individual TRUPS are re-graded at least quarterly as part of FHN s commercial loan review process. Typically, the terms of these loans include a prepayment option after a 5 year initial term, have a scheduled 30 year balloon payoff, and include an option to defer interest for up to 20 consecutive quarters. As of September 30, 2016, one TRUP relationship was on interest deferral compared to two as of September 30, 2015.

As of September 30, 2016, the unpaid principal balance (UPB) of trust preferred loans totaled $333.4 million ($207.1 million of bank TRUPS and $126.3 million of insurance TRUPS) with the UPB of other bank-related loans totaling $229.4 million. Inclusive of a remaining lower of cost or market (LOCOM) valuation allowance on TRUPS of $25.5 million, total reserves (ALLL plus the LOCOM) for TRUPS and other bank-related loans were $26.6 million or 5 percent of outstanding UPB.

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Loans to Mortgage Companies

The balances of loans to mortgage companies were 20 percent of the C&I portfolio as of September 30, 2016, as compared to 14 percent of the C&I portfolio in 2015, and include balances related to both home purchase and refinance activity. This portfolio class, which generally fluctuates with mortgage rates and seasonal factors, includes 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. Generally, lending to mortgage lenders increases when there is a decline in mortgage rates and decreases when rates rise.

C&I Asset Quality Trends

The C&I ALLL increased $15.4 million from September 30, 2015, to $86.9 million as of September 30, 2016. The net increase in reserves is largely driven by loan growth but was somewhat offset by the favorable impact of lower loss rates as net charge-offs remain at historical lows. The allowance as a percentage of period-end loans decreased to .72 percent as of September 30, 2016, from ..74 percent as of September 30, 2015. Net charge-offs were $1.3 million in third quarter 2016 compared to $6.4 million in third quarter 2015. Nonperforming C&I loans within the regional bank increased $9.4 million while non-strategic decreased $9.1 million for a net increase of $.3 million from September 30, 2015, to $29.9 million on September 30, 2016. The decrease in non-strategic nonperforming loans was primarily due to the fourth quarter 2015 sale of a TRUP loan on interest deferral. The nonperforming loan (NPL) ratio decreased 6 basis points from September 30, 2015, to .25 percent of C&I loans as of September 30, 2016. The 30+ delinquency ratio decreased 4 basis points from September 30, 2015, to .05 percent of C&I loans as of September 30, 2016.

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The following table shows C&I asset quality trends by segment.

Table 9 - C&I Asset Quality Trends by Segment

	September 30, 2016		
(Dollars in thousands)	Regional Bank	Non-Strategic	Consolidated
Period-end loans	**$ 11,697,996**	**$ 420,302**	**$ 12,118,298**
Nonperforming loans	**25,772**	**4,172**	**29,944**
Allowance for loan losses as of July 1, 2016	**79,597**	**1,375**	**80,972**
Charge-offs	**(1,992)**		**(1,992)**
Recoveries	**711**	**14**	**725**
Provision/(provision credit) for loan losses	**7,151**	**10**	**7,161**
Allowance for loan losses as of September 30, 2016	**85,467**	**1,399**	**86,866**
Troubled debt restructurings	**$ 32,983**	**$**	**$ 32,983**
30+ Delinq. % (a)	**0.05%**	**%**	**0.05%**
NPL %	**0.22**	**0.99**	**0.25**
Net charge-offs % (qtr. annualized)	**0.05**	**NM**	**0.04**
Allowance / loans %	**0.73%**	**0.33%**	**0.72%**
Allowance / charge-offs	**16.76x**	**NM**	**17.23x**

	September 30, 2015		
(Dollars in thousands)	Regional Bank	Non-Strategic	Consolidated
Period-end loans	$ 9,178,072	$ 432,223	$ 9,610,295
Nonperforming loans	16,308	13,313	29,621
Allowance for loan losses as of July 1, 2015	73,408	5,342	78,750
Charge-offs	(8,632)		(8,632)
Recoveries	1,151	1,113	2,264
Provision/(provision credit) for loan losses	(294)	(625)	(919)
Allowance for loan losses as of September 30, 2015	65,633	5,830	71,463
Troubled debt restructurings	$ 18,873	$	$ 18,873

30+ Delinq. % (a)	0.10%	0.02%	0.09%
NPL %	0.18	3.08	0.31
Net charge-offs % (qtr. annualized)	0.33	NM	0.26
Allowance / loans %	0.72%	1.35%	0.74%
Allowance / charge-offs	2.21x	NM	2.83x

NM - Not meaningful

Loans are expressed net of unearned income.

(a) 30+ Delinquency % includes all accounts delinquent more than one month and still accruing interest.

Commercial Real Estate

The CRE portfolio was $2.1 billion on September 30, 2016. The CRE portfolio includes both financings for commercial construction and nonconstruction loans. This portfolio is segregated between the income-producing CRE class which contains loans, draws on lines and letters of credit to commercial real estate developers for the construction and mini-permanent financing of income-producing real estate, and the residential CRE class. Subcategories of income CRE consist of multi-family (31 percent), retail (24 percent), hospitality (14 percent), office (14 percent), industrial (11 percent), land/land development (2 percent), and other (4 percent).

The residential CRE class includes loans to residential builders and developers for the purpose of constructing single-family homes, condominiums, and town homes. Active residential CRE lending within the regional banking footprint has been minimal with nearly all new originations limited to tactical advances to facilitate workout strategies with existing clients and selected new transactions with strategic clients. FHN considers a strategic residential CRE borrower as a homebuilder within the regional banking footprint who remained profitable during the most recent down cycle.

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CRE Asset Quality Trends

The CRE portfolio had continued stable performance in third quarter 2016 with nonperforming loans down $4.7 million from a year ago. The allowance increased $7.1 million from third quarter 2015 to $32.4 million in third quarter 2016. The increase in allowance is primarily driven by loan growth as balances increased $577.6 million from a year ago and consideration of the current economic environment. Allowance as a percentage of loans declined 13 basis points compared to third quarter 2015 to 1.57 percent as of September 30, 2016. FHN recognized a net recovery of $.6 million in third quarter 2016 compared to a net recovery of $.3 million in third quarter 2015. Nonperforming loans as a percentage of total CRE loans improved 37 basis points from third quarter 2015 to .17 percent as of September 30, 2016. Accruing delinquencies as a percentage of period-end loans improved 25 basis points from September 30, 2015, to .18 percent as of September 30, 2016. The following table shows commercial real estate asset quality trends by segment.

Table 10 - Commercial Real Estate Asset Quality Trends by Segment

	September 30, 2016		
(Dollars in thousands)	**Regional Bank**	**Non-Strategic**	**Consolidated**
Period-end loans	**$ 2,065,595**	**$ NM**	**$ 2,065,595**
Nonperforming loans	**3,417**	**NM**	**3,417**
Allowance for loan losses as of July 1, 2016	**30,264**	**NM**	**30,264**
Charge-offs	**(49)**	**NM**	**(49)**
Recoveries	**651**	**NM**	**651**
Provision/(provision credit) for loan losses	**1,554**	**NM**	**1,554**
Allowance for loan losses as of September 30, 2016	**32,420**	**NM**	**32,420**
Troubled debt restructurings	**$ 3,302**	**$**	**$ 3,302**
30+ Delinq. % (a)	**0.18%**	**NM**	**0.18%**
NPL %	**0.17**	**NM**	**0.17**
Net charge-offs % (qtr. annualized)	**NM**	**NM**	**NM**
Allowance / loans %	**1.57%**	**NM**	**1.57%**
Allowance / charge-offs	**NM**	**NM**	**NM**

	September 30, 2015		
(Dollars in thousands)	Regional Bank	Non-Strategic	Consolidated
Period-end loans	$ 1,487,846	$ 198	$ 1,488,044
Nonperforming loans	8,103		8,103
Allowance for loan losses as of July 1, 2015	21,465	27	21,492
Charge-offs	(533)		(533)

Recoveries	638	230	868
Provision/(provision credit) for loan losses	3,767	(246)	3,521
Allowance for loan losses as of September 30, 2015	25,337	11	25,348
Troubled debt restructurings	$ 10,287	$	$ 10,287
30+ Delinq. % (a)	0.43%	%	0.43%
NPL %	0.54		0.54
Net charge-offs % (qtr. annualized)	NM	NM	NM
Allowance / loans %	1.70%	5.86%	1.70%
Allowance / charge-offs	NM	NM	NM

NM - Not meaningful

Loans are expressed net of unearned income.

(a) 30+ Delinquency % includes all accounts delinquent more than one month and still accruing interest.

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CONSUMER LOAN PORTFOLIOS

Consumer Real Estate

The consumer real estate portfolio was $4.6 billion on September 30, 2016, and is primarily composed of home equity lines and installment loans including restricted balances (loans consolidated under ASC 810). The largest geographical concentrations of balances as of September 30, 2016, are in Tennessee (68 percent) and California (6 percent) with no other state representing more than 3 percent of the portfolio. As of September 30, 2016, approximately 67 percent of the consumer real estate portfolio was in a first lien position. At origination, weighted average FICO score of this portfolio was 749 and refreshed FICO scores averaged 746 as of September 30, 2016, as compared to 747 and 742, respectively, as of September 30, 2015. Generally, performance of this portfolio is affected by life events that affect borrowers finances, the level of unemployment, and home prices.

Home equity lines of credit (HELOCs) comprise $1.8 billion of the consumer real estate portfolio as of September 30, 2016. FHN s HELOCs typically have a 5 or 10 year draw period followed by a 10 or 20 year repayment period, respectively. During the draw period, a borrower is able to draw on the line and is only required to make interest payments. The line is automatically frozen if a borrower becomes 45 days or more past due on payments. Once the draw period has concluded, the line is closed and the borrower is required to make both principal and interest payments monthly until the loan matures. The principal payment generally is fully amortizing, but payment amounts will adjust when variable rates reset to reflect changes in the prime rate.

As of September 30, 2016, approximately 64 percent of FHN s HELOCs are in the draw period, compared to 68 percent as of September 30, 2015. Based on when draw periods are scheduled to end per the line agreement, it is expected that $614.2 million, or 54 percent of HELOCs currently in the draw period, will have entered the repayment period during the next 60 months. Delinquencies and charge-off rates for HELOCs that have entered the repayment period are initially higher than HELOCs still in the draw period because of the increased minimum payment requirement; however, after some seasoning, performance of these loans begins to stabilize. The home equity lines of the consumer real estate portfolio are being monitored closely for those nearing the end of the draw period and borrowers are being contacted proactively early in the process. The following table shows the HELOCs currently in the draw period and expected timing of conversion to the repayment period.

Table 11 - HELOC Draw To Repayment Schedule

	September 30, 2016		September 30, 2015	
(Dollars in thousands)	**Repayment Amount**	**Percent**	Repayment Amount	Percent
Months remaining in draw period:				
0-12	**$ 235,264**	**21%**	$ 252,574	17%
13-24	**152,958**	**13**	289,118	20
25-36	**87,830**	**8**	183,876	13
37-48	**69,105**	**6**	106,711	7
49-60	**69,026**	**6**	83,939	6
>60	**519,849**	**46**	545,910	37
Total	**$ 1,134,032**	**100%**	$ 1,462,128	100%

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Consumer Real Estate Asset Quality Trends

Overall, performance of the consumer real estate portfolio improved in third quarter 2016 when compared with third quarter 2015. The ALLL decreased $29.2 million from third quarter 2015 to $53.2 million as of September 30, 2016, with 75 percent of the decline attributable to the non-strategic segment. The allowance as a percentage of loans was 1.16 percent as of September 30, 2016, compared to 1.71 percent as of September 30, 2015. The 55 basis point decline in the allowance as a percentage of loans from third quarter 2015 to third quarter 2016 is the result of continued run-off of the balances within the non-strategic portfolio, sustained levels of low net charge-offs, strong performance, and continued improvement/stabilization of property values. The balance of nonperforming loans was $89.4 million and $111.7 million as of September 30, 2016 and 2015, respectively. The decrease was primarily the result of performing TDRs returning to accrual status, a decrease in second-lien loans behind delinquent first-lien loans, and run-off in the non-strategic segment of the portfolio. Loans delinquent 30 or more days and still accruing declined from $44.3 million as of September 30, 2015, to $39.4 million as of September 30, 2016. Third quarter 2016 realized a net recovery of $1.2 million compared to a net charge-off of $2.2 million in third quarter 2015. The ratios of 30+ delinquency and NPLs as a percentage of loans within the nonstrategic segment have increased compared to third quarter 2015 as total loans are declining at a faster rate than delinquencies and nonperforming loans. The following table shows consumer real estate asset quality trends by segment.

Table 12 - Consumer Real Estate Asset Quality Trends by Segment

	September 30, 2016		
(Dollars in thousands)	**Regional Bank**	**Non-Strategic**	**Consolidated**
Period-end loans	**$ 3,608,340**	**$ 970,031**	**$ 4,578,371**
Nonperforming loans	**20,680**	**68,757**	**89,437**
Allowance for loan losses as of July 1, 2016	**24,278**	**34,803**	**59,081**
Charge-offs	**(1,074)**	**(3,285)**	**(4,359)**
Recoveries	**985**	**4,606**	**5,591**
Provision/(provision credit) for loan losses	**(3,965)**	**(3,113)**	**(7,078)**
Allowance for loan losses as of September 30, 2016	**20,224**	**33,011**	**53,235**
Troubled debt restructurings	**$ 49,444**	**$ 109,465**	**$ 158,909**
30+ Delinq. % (a)	**0.46%**	**2.34%**	**0.86%**
NPL %	**0.57**	**7.09**	**1.95**
Net charge-offs % (qtr. annualized)	**0.01**	**NM**	**NM**
Allowance / loans %	**0.56%**	**3.40%**	**1.16%**
Allowance / charge-offs	**57.14x**	**NM**	**NM**

September 30, 2015

(Dollars in thousands)	Regional Bank	Non-Strategic	Consolidated
Period-end loans	$ 3,469,209	$ 1,344,727	$ 4,813,936
Nonperforming loans	26,092	85,576	111,668
Allowance for loan losses as of July 1, 2015	25,052	60,405	85,457
Charge-offs	(2,127)	(5,867)	(7,994)
Recoveries	1,215	4,570	5,785
Provision/(provision credit) for loan losses	3,388	(4,164)	(776)
Allowance for loan losses as of September 30, 2015	27,528	54,944	82,472
Troubled debt restructurings	$ 53,597	$ 116,471	$ 170,068
30+ Delinq. % (a)	0.48%	2.07%	0.92%
NPL %	0.75	6.36	2.32
Net charge-offs % (qtr. annualized)	0.11	0.37	0.18
Allowance / loans %	0.79%	4.09%	1.71%
Allowance / charge-offs	7.62x	10.67x	9.41x

NM - Not meaningful

Loans are expressed net of unearned income.

(a) 30+ Delinquency % includes all accounts delinquent more than one month and still accruing interest.

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Permanent Mortgage

The permanent mortgage portfolio was $.4 billion on September 30, 2016. This portfolio is primarily composed of jumbo mortgages and one-time-close (OTC) completed construction loans that were originated through legacy businesses. The corporate segment includes loans that were previously included in off-balance sheet proprietary securitization trusts. These loans were brought back into the loan portfolios at fair value through the execution of cleanup calls due to the relatively small balances left in the securitization and should continue to run-off. Approximately 24 percent of loan balances as of September 30, 2016, are in California, but the remainder of the portfolio is somewhat geographically diverse. Run-off contributed to a majority of the $27.8 million net decrease in permanent mortgage period-end balances from third quarter 2015 to third quarter 2016.

The ALLL decreased $3.5 million as of September 30, 2016, from $20.1 million as of September 30, 2015. TDR reserves (which are estimates of losses for the expected life of the loan) comprise 88 percent of the ALLL for the permanent mortgage portfolio as of September 30, 2016. Accruing delinquencies as a percentage of total loans increased from 2.01 percent in third quarter 2015 to 2.46 percent in third quarter 2016. Nonperforming loans declined $4.7 million to $29.1 million as of September 30, 2016. Annualized net charge-offs as a percentage of average loans were .12 percent in third quarter 2016 compared to .67 percent in third quarter 2015. The following table shows permanent mortgage asset quality trends by segment.

Table 13 - Permanent Mortgage Asset Quality Trends by Segment

	September 30, 2016			
(Dollars in thousands)	Regional Bank	Corporate (a)	Non-Strategic	Consolidated
Period-end loans	$ 67,367	$ 78,673	$ 290,060	$ 436,100
Nonperforming loans	398	1,211	27,495	29,104
Allowance for loan losses as of July 1, 2016	579	NM	17,021	17,600
Charge-offs		NM	(373)	(373)
Recoveries		NM	239	239
Provision/(provision credit) for loan losses	461	NM	(1,338)	(877)
Allowance for loan losses as of September 30, 2016	1,040	NM	15,549	16,589
Troubled debt restructurings	$ 997	$ 3,834	$ 89,240	$ 94,071
30+ Delinq. % (b)	0.64%	4.37%	2.36%	2.46%
NPL %	0.59	1.54	9.48	6.67
Net charge-offs % (qtr. annualized)		NM	0.18	0.12
Allowance / loans %	1.54%	NM	5.36%	3.80%
Allowance / charge-offs	NM	NM	29.16x	31.11x

	September 30, 2015			
(Dollars in thousands)	Regional Bank	Corporate (a)	Non-Strategic	Consolidated
Period-end loans	$ 8,936	$ 106,807	$ 348,150	$ 463,893
Nonperforming loans	483	3,043	30,319	33,845
Allowance for loan losses as of July 1, 2015	83	NM	22,294	22,377
Charge-offs	(58)	NM	(980)	(1,038)
Recoveries	58	NM	171	229
Provision/(provision credit) for loan losses	(9)	NM	(1,483)	(1,492)
Allowance for loan losses as of September 30, 2015	74	NM	20,002	20,076
Troubled debt restructurings	$ 1,137	$ 4,037	$ 99,880	$ 105,054
30+ Delinq. % (b)	7.62%	2.95%	1.58%	2.01%
NPL %	5.40	2.85	8.71	7.30
Net charge-offs % (qtr. annualized)		NM	0.90	0.67
Allowance / loans %	0.83%	NM	5.75%	4.33%
Allowance / charge-offs	NM	NM	6.23x	6.25x

NM - Not meaningful

Loans are expressed net of unearned income.

(a) The valuation taken upon exercise of clean-up calls included expected losses.
(b) 30+ Delinquency % includes all accounts delinquent more than one month and still accruing interest.

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Credit Card and Other

The credit card and other portfolio was $.4 billion as of September 30, 2016, and primarily includes credit card receivables, other consumer-related credits, and automobile loans. The allowance increased to $12.4 million as of September 30, 2016, from $11.5 million as of September 30, 2015. In third quarter 2016, FHN recognized $2.7 million of net charge-offs in the credit card and other portfolio, compared to $2.5 million in third quarter 2015. Annualized net charge-offs as a percentage of average loans increased 16 basis points from third quarter 2015 to 2.95 percent in third quarter 2016. Loans 30 days or more delinquent and accruing as a percentage of loans decreased 15 basis points from third quarter 2015 to 1.04 percent in third quarter 2016. The following table shows credit card and other asset quality trends by segment.

Table 14 - Credit Card and Other Asset Quality Trends by Segment

	September 30, 2016		
(Dollars in thousands)	**Regional Bank**	**Non-Strategic**	**Consolidated**
Period-end loans	**$ 349,340**	**$ 8,083**	**$ 357,423**
Nonperforming loans		**148**	**148**
Allowance for loan losses as of July 1, 2016	**11,633**	**257**	**11,890**
Charge-offs	**(3,550)**	**(39)**	**(3,589)**
Recoveries	**835**	**71**	**906**
Provision/(provision credit) for loan losses	**3,328**	**(88)**	**3,240**
Allowance for loan losses as of September 30, 2016	**12,246**	**201**	**12,447**
Troubled debt restructurings	**$ 294**	**$ 46**	**$ 340**
30+ Delinq. % (a)	**1.03%**	**1.62%**	**1.04%**
NPL %		**1.83**	**0.04**
Net charge-offs % (qtr. annualized)	**3.06**	**NM**	**2.95**
Allowance / loans %	**3.51%**	**2.50%**	**3.48%**
Allowance / charge-offs	**1.13x**	**NM**	**1.17x**

	September 30, 2015		
(Dollars in thousands)	Regional Bank	Non-Strategic	Consolidated
Period-end loans	$ 338,839	$ 10,485	$ 349,324
Nonperforming loans		743	743
Allowance for loan losses as of July 1, 2015	12,735	540	13,275
Charge-offs	(3,242)	(370)	(3,612)
Recoveries	1,033	93	1,126
Provision/(provision credit) for loan losses	(156)	822	666

Allowance for loan losses as of September 30, 2015	10,370	1,085	11,455
Troubled debt restructurings	$ 305	$ 75	$ 380
30+ Delinq. % (a)	1.17%	1.77%	1.19%
NPL %		7.09	0.21
Net charge-offs % (qtr. annualized)	2.56	10.22	2.79
Allowance / loans %	3.06%	10.34%	3.28%
Allowance / charge-offs	1.18x	0.98x	1.16x

Loans are expressed net of unearned income.

(a) 30+ Delinquency % includes all accounts delinquent more than one month and still accruing interest.

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The following table provides additional asset quality data by loan portfolio:

Table 15 - Asset Quality by Portfolio

	September 30	
	2016	2015
Key Portfolio Details		
C&I		
Period-end loans ($ millions)	**$ 12,118**	$ 9,610
30+ Delinq. % (a)	**0.05%**	0.09%
NPL %	**0.25**	0.31
Charge-offs % (qtr. annualized)	**0.04**	0.26
Allowance / loans %	**0.72%**	0.74%
Allowance / charge-offs	**17.23x**	2.83x
Commercial Real Estate		
Period-end loans ($ millions)	**$ 2,066**	$ 1,488
30+ Delinq. % (a)	**0.18%**	0.43%
NPL %	**0.17**	0.54
Charge-offs % (qtr. annualized)	**NM**	NM
Allowance / loans %	**1.57%**	1.70%
Allowance / charge-offs	**NM**	NM
Consumer Real Estate		
Period-end loans ($ millions)	**$ 4,578**	$ 4,814
30+ Delinq. % (a)	**0.86%**	0.92%
NPL %	**1.95**	2.32
Charge-offs % (qtr. annualized)	**NM**	0.18
Allowance / loans %	**1.16%**	1.71%
Allowance / charge-offs	**NM**	9.41x
Permanent Mortgage		
Period-end loans ($ millions)	**$ 436**	$ 464
30+ Delinq. % (a)	**2.46%**	2.01%
NPL %	**6.67**	7.30
Charge-offs % (qtr. annualized)	**0.12**	0.67
Allowance / loans %	**3.80%**	4.33%
Allowance / charge-offs	**31.11x**	6.25x
Credit Card and Other		
Period-end loans ($ millions)	**$ 358**	$ 349
30+ Delinq. % (a)	**1.04%**	1.19%
NPL %	**0.04**	0.21
Charge-offs % (qtr. annualized)	**2.95**	2.79
Allowance / loans %	**3.48%**	3.28%
Allowance / charge-offs	**1.17x**	1.16x

NM Not meaningful

Loans are expressed net of unearned income.

(a) 30+ Delinquency % includes all accounts delinquent more than one month and still accruing interest.

Allowance for Loan Losses

Management s policy is to maintain the ALLL at a level sufficient to absorb estimated probable incurred losses in the loan portfolio. The total allowance for loan losses decreased 4 percent from third quarter 2015 to $201.6 million on September 30, 2016. The ALLL as of September 30, 2016, reflects loan growth within the regional bank, strong asset quality with the consumer real estate portfolio continuing to stabilize, declining non-strategic balances, and the moderation of the pace of improvement from a year ago. The ratio of allowance for loan losses to total loans, net of unearned income, decreased to 1.03 percent on September 30, 2016, from 1.26 percent on September 30, 2015.

The provision for loan losses is the charge to earnings necessary to maintain the ALLL at a sufficient level reflecting management s estimate of probable incurred losses in the loan portfolio. The provision for loan losses increased to $4.0 million in third quarter 2016 from $1.0 million in third quarter 2015.

FHN expects asset quality trends to remain relatively stable for the near term if the slow growth of the economy continues. The C&I portfolio is expected to continue to show stable trends but short-term variability (both positive and negative) is possible. The CRE portfolio metrics should be relatively consistent as FHN expects stable property values over the near term; however, oversupply of any CRE product type, changes in the lending environment, or economic uncertainty could result in decreased property values. The remaining non-strategic consumer real estate and permanent mortgage portfolios should continue to steadily wind down. Asset quality metrics within non-strategic may become skewed as the portfolio continues to shrink. Continued stabilization in performance of the consumer real estate portfolio assumes an ongoing economic recovery as consumer delinquency and loss rates are correlated with unemployment trends and strength of the housing market.

Consolidated Net Charge-offs

Net charge-offs decreased $9.3 million from third quarter 2015 to $2.3 million in third quarter 2016. The ALLL was 22.51 times annualized net charge-offs for third quarter 2016 compared with 4.61 times annualized net charge-offs for third quarter 2015. The annualized net charge-offs to average loans ratio declined by 23 basis points to .05 percent. Net charge-off levels remain at historical lows.

Commercial net charge-offs were $.7 million in third quarter 2016 compared to $6.0 million in third quarter 2015. The decline in commercial net charge-offs was largely driven by the C&I portfolio within the regional bank as third quarter 2015 included a charge-off resulting from borrower fraud associated with one large regional bank C&I credit. Consolidated net charge-offs in the consumer portfolios declined $3.9 million from third quarter 2015 to $1.6 million in third quarter 2016. The decline in consumer net charge-offs was largely driven by the consumer real estate portfolio within non-strategic as gross charge-offs have been lower but also due to default servicing and recovery efforts.

Nonperforming Assets

Nonperforming loans are loans placed on nonaccrual status if it becomes probable that full collection of principal and interest will not be collected in accordance with contractual terms, impairment has been recognized as a partial charge-off of principal balance, or on a case-by-case basis, if FHN continues to receive payments but there are other borrower-specific issues. Included in nonaccruals are loans in which FHN continues to receive payments, including residential real estate loans where the borrower has been discharged of personal obligation through bankruptcy and second liens, regardless of delinquency status, behind first liens that are 90 or more days past due or are TDRs. These, along with foreclosed real estate, excluding foreclosed real estate from government insured mortgages, represent nonperforming assets (NPAs).

Total nonperforming assets (including NPLs HFS) decreased to $173.5 million on September 30, 2016, from $217.2 million on September 30, 2015. The nonperforming assets ratio (nonperforming assets excluding NPLs HFS to total period-end loans plus foreclosed real estate and other assets) decreased to .85 percent in third quarter 2016 from 1.25 percent in third quarter 2015 due to a 47 percent decrease in foreclosed real estate (excluding foreclosed real estate from government insured mortgages) and a 17 percent decline in portfolio nonperforming loans from third quarter 2015 to third quarter 2016. Portfolio nonperforming loans declined $31.9 million from third quarter 2015 to $152.0 million on September 30, 2016. The decline in nonperforming loans was primarily driven by a decrease in consumer real estate nonperforming loans within the non-strategic segment as well as a decline in commercial real estate loans within the regional bank.

Consolidated nonperforming consumer real estate loans decreased $22.2 million in 2016 from $111.7 million in 2015. This decrease was largely driven by performing troubled debt restructurings (TDRs) returning to accrual status combined with a decline in second-lien loans behind delinquent first-lien loans. C&I NPLs within the regional bank increased $9.4 million while nonstrategic decreased $9.1 million for a net increase of $.3 million in third quarter 2016. The decrease in nonstrategic C&I NPLs was primarily due to the fourth quarter 2015 sale of a TRUP loan on interest deferral. Commercial real estate NPLs decreased $4.7 million to $3.4 million in 2016 within the regional bank driven by payoffs.

The ratio of the ALLL to NPLs in the loan portfolio was 1.33 times in 2016 compared to 1.15 times in 2015, driven by lower nonperforming loans. Certain nonperforming loans in both the commercial and consumer portfolios are deemed collateral-dependent and are charged down to an estimate of collateral value less costs to sell. Because loss content has been recognized through a partial charge-off, typically reserves are not recorded.

Table 16 provides an activity rollforward of foreclosed real estate balances for September 30, 2016 and 2015. The balance of foreclosed real estate, exclusive of inventory from government insured mortgages, decreased to $13.7 million as of September 30, 2016, from $25.9 million as of September 30, 2015, as FHN has executed sales of existing foreclosed assets and continued efforts to avoid foreclosures by restructuring loans and working with borrowers. Additionally, property values have stabilized which also affect the balance of foreclosed real estate. See the discussion of Foreclosure Practices in the Market Uncertainties and Prospective Trends section of MD&A for information regarding the impact on FHN.

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Table 16 - Rollforward of Foreclosed Real Estate

(Dollars in thousands)	Three Months Ended September 30 2016	2015	Nine Months Ended September 30 2016	2015
Beginning balance (a)	**$ 14,150**	$ 29,109	**$ 24,977**	$ 30,430
Valuation adjustments	**(711)**	(706)	**(1,561)**	(2,366)
New foreclosed property	**3,745**	1,479	**7,291**	9,772
Disposals:				
Single transactions	**(3,506)**	(4,010)	**(17,029)**	(11,964)
Ending balance, September 30 (a)	**$ 13,678**	$ 25,872	**$ 13,678**	$ 25,872

(a) Excludes foreclosed real estate and receivables related to government insured mortgages of $6.4 million and $10.7 million as of September 30, 2016 and 2015, respectively.

The following table provides consolidated asset quality information for the three months ended September 30, 2016 and 2015:

Table 17 - Asset Quality Information

(Dollars in thousands)	Three Months Ended September 30 2016	2015
Allowance for loan losses:		
Beginning balance on July 1	**$ 199,807**	$ 221,351
Provision for loan losses	**4,000**	1,000
Charge-offs	**(10,362)**	(21,809)
Recoveries	**8,112**	10,272
Ending balance on September 30	**$ 201,557**	$ 210,814
Reserve for remaining unfunded commitments	**4,802**	6,231
Total allowance for loan losses and reserve for unfunded commitments	**$ 206,359**	$ 217,045

	As of September 30 2016	2015
Nonperforming Assets by Segment		
Regional Banking:		
Nonperforming loans (a)	**$ 50,267**	$ 50,986

Foreclosed real estate (b)	**5,811**	17,042
Total Regional Banking	**56,078**	68,028
Non-Strategic:		
Nonperforming loans (a)	**100,572**	129,951
Nonperforming loans held-for-sale after fair value adjustment (a)	**7,791**	7,347
Foreclosed real estate (b)	**7,867**	8,830
Total Non-Strategic	**116,230**	146,128
Corporate:		
Nonperforming loans (a)	**1,211**	3,043
Total Corporate	**1,211**	3,043
Total nonperforming assets (a) (b)	**$ 173,519**	$ 217,199

(a) Excludes loans that are 90 or more days past due and still accruing interest.
(b) Excludes foreclosed real estate from government-insured mortgages.

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Table 17 - Asset Quality Information (Continued)

	As of September 30	
	2016	2015
Loans and commitments:		
Total period-end loans, net of unearned income	**$ 19,555,787**	$ 16,725,492
Potential problem assets (a)	**255,370**	194,122
Loans 30 to 89 days past due	**40,548**	52,216
Loans 30 to 89 days past due - guaranteed portion (b)	**93**	
Loans 90 days past due (c)	**22,880**	20,893
Loans 90 days past due - guaranteed portion (b) (c)	**30**	75
Loans held-for-sale 30 to 89 days past due	**5,555**	7,094
Loans held-for-sale 30 to 89 days past due - guaranteed portion (b)	**5,348**	6,482
Loans held-for-sale 90 days past due (c)	**13,615**	17,564
Loans held-for-sale 90 days past due - guaranteed portion (b) (c)	**13,615**	16,782
Remaining unfunded commitments	**8,012,345**	7,962,432
Average loans, net of unearned income	**$ 18,679,350**	$ 16,632,994
Allowance and net charge-off ratios:		
Allowance to total loans	**1.03%**	1.26%
Allowance to nonperforming loans in the loan portfolio	**1.33x**	1.15x
Allowance to annualized net charge-offs	**22.51x**	4.61x
Nonperforming assets to loans and foreclosed real estate (d)	**0.85%**	1.25%
Nonperforming loans in the loan portfolio to total loans, net of unearned income	**0.78%**	1.10%
Total annualized net charge-offs to average loans (e)	**0.05%**	0.28%

(a) Includes past due loans.
(b) Guaranteed loans include FHA, VA, and GNMA loans repurchased through the GNMA buyout program.
(c) Amounts are not included in nonperforming/nonaccrual loans.
(d) Ratio is non-performing assets related to the loan portfolio to total loans plus foreclosed real estate and other assets.
(e) Net charge-off ratio is annualized net charge-offs divided by quarterly average loans, net of unearned income.

Past Due Loans and Potential Problem Assets

Past due loans are loans contractually past due as to interest or principal payments, but which have not yet been put on nonaccrual status. Loans in the portfolio that are 90 days or more past due and still accruing were $22.9 million on September 30, 2016, compared to $20.9 million on September 30, 2015. The increase was driven primarily by the permanent mortgage and commercial real estate portfolios. Loans 30 to 89 days past due decreased to $40.5 million on September 30, 2016, from $52.2 million on September 30, 2015. The decrease was largely driven by the commercial and consumer real estate portfolios.

Potential problem assets represent those assets where information about possible credit problems of borrowers has caused management to have serious doubts about the borrower s ability to comply with present repayment terms. This definition is believed to be substantially consistent with the standards established by the OCC for loans classified as substandard. Potential problem assets in the loan portfolio, which includes loans past due 90 days or more and still accruing, were $255.4 million on September 30, 2016, $234.3 million on June 30, 2016, and $194.1 million on September 30, 2015. The increase in potential problem assets from second quarter 2016 to third quarter 2016 was due to an increase in classified commercial loans as a result of the third quarter 2016 loan acquisition combined with net downgrades during the quarter. The current expectation of losses from potential problem assets has been included in management s analysis for assessing the adequacy of the allowance for loan losses.

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Troubled Debt Restructuring and Loan Modifications

As part of FHN s ongoing risk management practices, FHN attempts to work with borrowers when appropriate 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. In a situation where an economic concession has been granted to a borrower that is experiencing financial difficulty, FHN identifies and reports that loan as a Troubled Debt Restructuring (TDR). See Note 4 Loans for further discussion regarding TDRs and loan modifications.

On September 30, 2016 and 2015, FHN had $289.6 million and $304.7 million portfolio loans classified as TDRs, respectively. For TDRs in the loan portfolio, FHN had loan loss reserves of $48.7 million and $51.2 million, or 17 percent of TDR balances, as of September 30, 2016 and 2015, respectively. Additionally, FHN had $71.2 million and $72.6 million of HFS loans classified as TDRs as of September 30, 2016 and 2015, respectively. Total held-to-maturity TDRs decreased by $15.1 million with the majority of the decline attributable to consumer real estate and permanent mortgage loans partially offset by an increase in C&I. Generally, the volume of new TDRs, particularly within the consumer real estate and permanent mortgage portfolios, has substantially declined.

The following table provides a summary of TDRs for the periods ended September 30, 2016 and 2015:

Table 18 - Troubled Debt Restructurings

(Dollars in thousands)	**As of September 30, 2016**	As of September 30, 2015
Held-to-maturity:		
Permanent mortgage:		
Current	**$ 74,066**	$ 80,028
Delinquent	**2,211**	4,379
Non-accrual (a)	**17,794**	20,647
Total permanent mortgage	**94,071**	105,054
Consumer real estate:		
Current	**106,147**	105,989
Delinquent	**3,320**	4,164
Non-accrual (b)	**49,442**	59,915
Total consumer real estate	**158,909**	170,068
Credit card and other:		
Current	**312**	368
Delinquent	**28**	12
Non-accrual		
Total credit card and other	**340**	380
Commercial loans:		

Current		**25,733**		20,471
Delinquent				182
Non-accrual		**10,552**		8,507
Total commercial loans		**36,285**		29,160
Total held-to-maturity	**$**	**289,605**	$	304,662
Held-for-sale:				
Current	**$**	**50,704**	$	52,270
Delinquent		**14,303**		16,775
Non-accrual		**6,218**		3,592
Total held-for-sale		**71,225**		72,637
Total troubled debt restructurings	**$**	**360,830**	$	377,299

(a) Balances as of September 30, 2016 and 2015, include $4.3 million and $6.0 million, respectively, of discharged bankruptcies.

(b) Balances as of September 30, 2016 and 2015, each include $15.4 million of discharged bankruptcies.

RISK MANAGEMENT

Except as discussed below, there have been no significant changes to FHN s risk management practices as described under Risk Management beginning on page 48 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2015.

MARKET RISK MANAGEMENT

There have been no significant changes to FHN s market risk management practices as described under Market Risk Management beginning on page 49 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2015.

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Value-at-Risk (VaR) and Stress Testing

VaR is a statistical risk measure used to estimate the potential loss in value from adverse market movements over an assumed fixed holding period within a stated confidence level. FHN employs a model to compute daily VaR measures for its trading securities inventory. FHN computes VaR using historical simulation with a 1-year lookback period at a 99 percent confidence level and 1-day and 10-day time horizons. Additionally, FHN computes a Stressed VaR (SVaR) measure. The SVaR computation uses the same model but with model inputs reflecting historical data from a continuous 12-month period that reflects a period of significant financial stress appropriate for our trading securities portfolio.

A summary of FHN s VaR and SVaR measures for 1-day and 10-day time horizons is as follows:

Table 19 - VaR and SVaR Measures

	Three Months Ended September 30, 2016			**Nine Months Ended September 30, 2016**			**As of September 30, 2016**
(Dollars in thousands)	**Mean**	**High**	**Low**	**Mean**	**High**	**Low**	
1-day							
VaR	**$ 814**	**$ 1,040**	**$ 606**	**$ 769**	**$ 1,411**	**$ 393**	**$ 880**
SVaR	**3,823**	**5,641**	**2,253**	**3,607**	**5,789**	**1,748**	**4,017**
10-day							
VaR	**1,917**	**3,167**	**1,170**	**1,848**	**4,058**	**751**	**2,998**
SVaR	**12,439**	**18,221**	**7,105**	**11,703**	**18,221**	**3,263**	**12,055**

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015			As of September 30, 2015
(Dollars in thousands)	Mean	High	Low	Mean	High	Low	
1-day							
VaR	$ 605	$ 963	$ 418	$ 648	$ 1,050	$ 388	$ 750
SVaR	2,515	3,926	1,647	3,086	5,356	1,647	2,720
10-day							
VaR	1,636	3,171	742	1,826	3,452	742	2,077
SVaR	9,360	13,642	5,039	9,560	15,538	4,094	10,039

	Year Ended December 31, 2015			As of December 31, 2015
(Dollars in thousands)	Mean	High	Low	
1-day				
VaR	$ 664	$ 1,174	$ 384	$ 498
SVaR	3,184	5,727	1,628	2,263
10-day				
VaR	1,788	3,452	742	990

SVaR	10,122	16,677	4,094	4,645

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FHN s overall VaR measure includes both interest rate risk and credit spread risk. Separate measures of these component risks are as follows:

Table 20 - Schedule of Risks Included in VaR

	As of September 30 , 2016		As of September 30, 2015		As of December 31, 2015	
(Dollars in Thousands)	**1-day**	**10-day**	1-day	10-day	1-day	10-day
Interest rate risk	**$ 683**	**$ 1,436**	$ 1,069	$ 3,406	$ 451	$ 553
Credit spread risk	**785**	**2,710**	762	1,483	443	841

CAPITAL MANAGEMENT AND ADEQUACY

There have been no significant changes to FHN s capital management practices as described under Capital Management and Adequacy on page 51 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2015.

OPERATIONAL RISK MANAGEMENT

There have been no significant changes to FHN s operational risk management practices as described under Operational Risk Management on page 51 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2015.

COMPLIANCE RISK MANAGEMENT

There have been no significant changes to FHN s compliance risk management practices as described under Compliance Risk Management on page 51 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2015.

CREDIT RISK MANAGEMENT

There have been no significant changes to FHN s credit risk management practices as described under Credit Risk Management beginning on page 51 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2015.

INTEREST RATE RISK MANAGEMENT

Except as disclosed below, there have been no significant changes to FHN s interest rate risk management practices as described under Interest Rate Risk Management beginning on page 52 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2015.

Net Interest Income Simulation Analysis

The information provided in this section, including the discussion regarding the outcomes of simulation analysis and rate shock analysis, is forward-looking. Actual results, if the assumed scenarios were to occur, could differ because of interest rate movements, the ability of management to execute its business plans, and other factors, including those presented in the Forward-Looking Statements section of this MD&A.

Management uses interest rate exposure models to formulate strategies to improve balance sheet positioning, earnings, or both, within FHN s interest rate risk, liquidity, and capital guidelines. FHN uses simulation analysis as its primary tool to evaluate interest rate risk exposure. This type of analysis computes net interest income at risk under a variety of market interest rate scenarios to dynamically identify interest rate risk exposures exclusive of the potential impact on fee income. This risk management simulation, which considers forecasted balance sheet changes, prepayment speeds, deposit mix, pricing impacts, and other changes in the net interest spread, provides an estimate of the annual net interest income at risk for given changes in interest rates. The results help FHN develop strategies for managing exposure to interest rate risk. Like any risk management technique creating simulated outcomes for a range of given scenarios, interest rate simulation modeling is based on a number of assumptions and judgments. In this case, the assumptions relate primarily to loan and deposit growth, asset and liability prepayments, interest rates, and on- and off-balance sheet hedging strategies. Management believes the assumptions used and scenarios selected in its simulations are reasonable. Nevertheless, simulation modeling provides only a sophisticated estimate, not a precise calculation, of exposure to any given changes in interest rates.

The simulation models used to analyze net interest income create various at-risk scenarios looking at assumed increases and/or decreases in interest rates from instantaneous and staggered movements over a certain time period. In addition, the risk of changes in the yield curve is estimated by flattening and steepening the yield curve to simulate net interest income exposure. Management reviews these different scenarios to determine alternative strategies and executes based on that evaluation. The models are regularly updated to incorporate management action. Any scenarios that indicate a change in net interest income of 3 percent or more from a base net interest income are presented to the Board quarterly.

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The scenarios performed attempt to capture risk to net interest income from rising rates and changes in the shape of the yield curve assuming a static balance sheet. Based on the rate sensitivity position on September 30, 2016, net interest income exposure over the next 12 months to a rate shock of plus 25 basis points, 50 basis points, 100 basis points, and 200 basis points is estimated to be a favorable variance of 1.3 percent, 2.6 percent, 4.8 percent, and 8.7 percent, respectively of base net interest income. A steepening yield curve scenario where long-term rates increase by 50 basis points and short-term rates are static, results in a favorable variance in net interest income of 1.5 percent of base net interest income. A flattening yield curve scenario where long-term rates decrease by 50 basis points and short-term rates are static, results in an unfavorable variance in net interest income of 2.0 percent of base net interest income. A rate shock of minus 25 basis points results in an unfavorable variance in net interest income of 2.1 percent of base net interest income. These hypothetical scenarios are used to create one estimate of risk, and do not necessarily represent management s current view of future interest rates or market developments.

While the continuing low interest rate environment is not expected to have a significant impact on the capital position of FHN, the ability to expand net interest margin in this environment, without assuming additional credit risk, continues to be a challenge for FHN. As long as the historically low interest rate environment persists, net interest margin will typically decline as yields on fixed rate loans and investment securities decrease due to the combination of asset prepayments and lower reinvestment rates. With core deposit rates near zero, there is little opportunity to offset the yield declines in fixed rate assets with corresponding declines in deposit rates.

LIQUIDITY MANAGEMENT

ALCO also focuses on liquidity management: the funding of assets with liabilities of appropriate duration, while mitigating the risk of unexpected cash needs. ALCO and the Board of Directors have adopted a Liquidity Policy to direct management on the Company s liquidity risk. The objective of the Liquidity Policy is to ensure that FHN meets its cash and collateral obligations promptly, in a cost-effective manner and with the highest degree of reliability. The maintenance of adequate levels of asset and liability liquidity should provide FHN with the ability to meet both expected and unexpected cash flows and collateral needs. Key liquidity ratios, asset liquidity levels and the amount available from funding sources are reported to ALCO on a regular basis. FHN s Liquidity Policy establishes liquidity limits that are deemed appropriate for its risk profile.

In accordance with the Liquidity Policy, ALCO manages FHN s exposure to liquidity risk through a dynamic, real time forecasting methodology. Base liquidity forecasts are reviewed by ALCO and are updated as financial conditions dictate. In addition to the baseline liquidity reports, robust stress testing of assumptions and funds availability are periodically reviewed. FHN maintains a contingency funding plan that may be executed, should unexpected difficulties arise in accessing funding that affects FHN, the industry as a whole, or both. Subject to market conditions and compliance with applicable regulatory requirements from time to time, funds are available from a number of sources including the available-for-sale securities portfolio, dealer and commercial customer repurchase agreements, access to the overnight and term Federal Funds markets, incremental borrowing capacity at the FHLB of $2.3 billion as of September 30, 2016, brokered deposits, loan sales, syndications, and access to the Federal Reserve Banks.

Core deposits are a significant source of funding and have historically been a stable source of liquidity for banks. Generally, core deposits represent funding from a financial institutions customer base which provide inexpensive, predictable pricing. The Federal Deposit Insurance Corporation insures these deposits to the extent authorized by law. Generally, these limits are $250 thousand per account owner for interest bearing and non-interest bearing accounts. The ratio of total loans, excluding loans HFS and restricted real estate loans, to core deposits was 91 percent in 2016 compared to 89 percent in 2015.

FHN also may use unsecured short-term borrowings as a source of liquidity. Currently, the largest concentration of unsecured borrowings is federal funds purchased from bank correspondent customers. These funds are considered to be substantially more stable than funds purchased in the national broker markets for federal funds due to the long, historical, and reciprocal nature of banking services provided by FHN to these correspondent banks. The remainder of FHN s wholesale short-term borrowings is repurchase agreement transactions accounted for as secured borrowings with the Regional Bank s business customers or Fixed Income s broker dealer counterparties.

Both FHN and FTBNA may access the debt markets in order to provide funding through the issuance of senior or subordinated unsecured debt subject to market conditions and compliance with applicable regulatory requirements. In 2014, FTBNA issued $400 million of fixed rate senior notes due in December 2019. In October 2015, FHN issued $500 million of fixed rate senior notes due in December 2020. FHN also maintains $26.1 million of borrowings which are secured by residential real estate loans in a consolidated securitization trust.

Both FHN and FTBNA have the ability to generate liquidity by issuing preferred equity, and (for FHN) by issuing common equity, subject to market conditions and compliance with applicable regulatory requirements. In January 2013, FHN issued $100 million of Non-Cumulative Perpetual Preferred Stock, Series A. As of September 30, 2016, FTBNA and subsidiaries had outstanding preferred shares of $295.4 million, which are reflected as noncontrolling interest on the Consolidated Condensed Statements of Condition.

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Parent company liquidity is primarily provided by cash flows stemming from dividends and interest payments collected from subsidiaries. These sources of cash represent the primary sources of funds to pay cash dividends to shareholders and principal and interest to debt holders of FHN. The amount paid to the parent company through FTBNA common dividends is managed as part of FHN s overall cash management process, subject to applicable regulatory restrictions. Certain regulatory restrictions exist regarding the ability of FTBNA to transfer funds to FHN in the form of cash, common dividends, loans, or advances. At any given time, the pertinent portions of those regulatory restrictions allow FTBNA to declare preferred or common dividends without prior regulatory approval in an aggregate amount equal to FTBNA s retained net income for the two most recent completed years plus the current year to date. For any period, FTBNA s retained net income generally is equal to FTBNA s regulatory net income reduced by the preferred and common dividends declared by FTBNA. Excess dividends in either of the two most recent completed years may be offset with available retained net income in the two years immediately preceding it. Applying the applicable rules, FTBNA s total amount available for dividends was negative $156.2 million as of September 30, 2016, consequently, FTBNA could not pay common dividends to its sole common stockholder, FHN, or to its preferred shareholders without prior regulatory approval. FTBNA applied for and received approval from the OCC to declare and pay common dividends to FHN in first, second, third and fourth quarter 2016 in the amounts of $50 million, $120 million, $40 million, and $40 million, respectively, and in the amount of $325 million in 2015. FTBNA declared and paid preferred dividends in each quarter to date of 2016 and each quarter of 2015, with OCC approval as necessary. Additionally FTBNA declared preferred dividends in fourth quarter 2016, with OCC approval.

Payment of a dividend to shareholders of FHN is dependent on several factors which are considered by the Board. These factors include FHN s current and prospective capital, liquidity, and other needs, applicable regulatory restrictions, and also availability of funds to FHN through a dividend from FTBNA. Additionally, the Federal Reserve and the OCC generally require insured banks and bank holding companies to pay cash dividends only out of current operating earnings. Consequently, the decision of whether FHN will pay future dividends and the amount of dividends will be affected by current operating results. FHN paid a cash dividend of $.07 per common share on October 3, 2016, and in October 2016 the Board approved a $.07 per common share cash dividend payable on January 3, 2017, to shareholders of record on December 9, 2016. FHN paid a cash dividend of $1,550.00 per preferred share on October 11, 2016, and in October 2016 the Board approved a $1,550.00 per preferred share cash dividend payable on January 10, 2017, to shareholders of record on December 23, 2016.

CASH FLOWS

The Consolidated Condensed Statements of Cash Flows provide information on cash flows from operating, investing, and financing activities for the nine months ended September 30, 2016 and 2015. The level of cash and cash equivalents increased $126.5 million during 2016 compared to an increase of $42.5 million in 2015. During the nine months ended September 30, 2016, cash provided by financing activities outpaced cash used by investing and operating activities, whereas during the nine months ended September 30, 2015, cash provided by investing activities and operating activities exceeded cash used by financing activities.

Net cash used by operating activities was $259.6 million in 2016 compared to net cash provided of $212.6 million in 2015. Cash outflows in 2016 were primarily due to net fixed income trading activities of $287.5 million, a $165 million cash contribution to the qualified pension plan, and net changes in operating assets and liabilities of $94.6 million. Operating cash flows in 2015 were favorably driven by cash-related net income items and a $194.2 million net increase in cash related to fixed income activities, but were somewhat offset by cash outflows related to operating assets and liabilities of $125.7 million.

Net cash used by investing activities was $1.6 billion in 2016, compared to net cash provided of $421.8 million in 2015. Cash outflows in 2016 were primarily attributable to a $1.9 billion increase in loans, which included $537.4

million UPB of loans acquired from GE Capital. Cash outflows were partially offset by a $383.0 million decrease in interest-bearing cash. In 2015, cash inflows were primarily attributed to a $1.0 billion decline in interest-bearing cash and $40.4 million of proceeds from the sale of properties, but were partially offset by loan growth within the regional bank and $102.7 million in net cash used in the available-for-sale securities portfolio.

Net cash provided by financing activities was $1.9 billion in 2016 compared to net cash used of $592.0 million in 2015. In 2016, cash inflows were positively affected by a $1.6 billion net increase in deposits and a $732.9 million increase in short-term borrowings, but were partially offset by $264.6 million in payments of long-term borrowings, which included the maturity of $250 million of subordinated notes. Additionally, share repurchases and dividend payments negatively affected financing cash flows in 2016. In 2015, cash was negatively affected by an $803.3 million decrease in short-term borrowings and $519.5 million in payments on long-term borrowings, which included the maturity of $304 million of subordinated notes and the redemption of $206 million of junior subordinated debentures underlying trust preferred securities. Additionally dividends and share repurchases negatively affected financing cash flows in 2015.

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REPURCHASE OBLIGATIONS, OFF-BALANCE SHEET ARRANGEMENTS, AND OTHER CONTRACTUAL OBLIGATIONS

Obligations from Legacy Mortgage Businesses

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 could no longer 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 in several transactions, concluding in 2014.

Certain mortgage-related terms used in this section are defined in Mortgage-Related Glossary below.

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.

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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 resulted in the reversal of $31.4 million of mortgage repurchase and foreclosure provision expense. Repurchase claims that are not resolved by the parties could become litigation.

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. A number of those matters have settled or otherwise been resolved, but several remain pending. See Note 10 Contingencies and Other Disclosures for a discussion of certain actions pending against FHN in relation to FH proprietary securitizations.

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.

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 a substantial majority of all repurchase requests/make-whole claims received since the 2008 platform sale.

From 2005 through 2007, $26.7 billion of mortgage loans were included in FH proprietary securitizations. On September 30, 2016, the remaining UPB of loans held in FH proprietary securitizations was $4.2 billion, comprised of $3.0 billion of Alt-A loans and $1.2 billion of Jumbo loans.

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Mortgage-Related Glossary

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

Active Pipeline

FHN accumulates the amount of repurchase requests, make-whole claims, and certain other related claims into the active pipeline. The active pipeline includes the amount of claims for loan repurchase, make-whole payments, loans as to which MI has been canceled, and information requests from purchasers of loans originated and sold through FHN s legacy mortgage banking business. MI was required for certain of the loans sold to GSEs or that were securitized. Although unresolved MI cancellation notices are not formal repurchase requests, FHN includes those loans in the active pipeline. Additionally, FHN is responsible for covering losses for purchasers to the extent there is a shortfall in

MI insurance coverage (MI curtailment). Generally, the amount of a loan subject to a repurchase/make-whole claim, or with open MI issues, remains in the active pipeline throughout the resolution process with a claimant. During the last several years the active pipeline has steadily decreased, due in part to settlements and other resolutions, but also due to significant reductions in inflows. On September 30, 2016, the active pipeline was $52.1 million, down from $173.2 million a year ago.

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The following tables provide a rollforward of the number and unpaid principal amount of loans in the active repurchase request pipeline, including related unresolved MI cancellation notices and other requests for the three and nine months ended September 30, 2016:

Table 21 - Rollforward of the Active Pipeline

	July 1, 2016		Inflows		Resolutions		Settlement		Adjustments (c)		September 30, 20	
ollars in thousands)	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amoun
epurchase/make hole requests:												
NMA (a)	22	$ 4,264	11	$ 1,504	(14)	$ (2,034)		$	1	$ 185	20	$ 3,919
HLMC (a)	6	1,074	1	198	(6)	(1,011)					1	261
NMA	4	295	1	81	(3)	(177)					2	199
on-Agency whole an-related	125	19,108	2	183							127	19,291
I Cancellations	14	3,344	23	3,561	(19)	(4,512)			(1)	(66)	17	2,327
I Curtailments	155	26,338	3	341	(34)	(6,738)			3	551	127	20,492
ther requests (b)	62	8,682	7	800	(24)	(4,004)				151	45	5,629
otal	388	$ 63,105	48	$ 6,668	(100)	$ (18,476)		$	3	$ 821	339	$ 52,118

	January 1, 2016		Inflows		Resolutions		Settlement		Adjustments (c)		September 30, 20	
ollars in thousands)	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amoun
epurchase/make hole requests:												
NMA (a)	115	$ 22,465	44	$ 7,406	(52)	$ (8,711)	(87)	$ (17,286)		$ 45	20	$ 3,919
HLMC (a)	10	1,699	5	918	(14)	(2,446)	(1)	(50)	1	140	1	261
NMA	2	297	5	376	(5)	(474)					2	199
on-Agency whole an-related	131	19,971	6	1,018	(10)	(1,698)					127	19,291
I Cancellations	23	5,214	41	6,793	(37)	(7,718)	(6)	(934)	(4)	(1,028)	17	2,327
I Curtailments	535	89,805	68	10,806	(355)	(59,051)	(129)	(22,236)	8	1,168	127	20,492
ther requests (b)	190	27,881	25	3,167	(99)	(15,495)	(69)	(9,842)	(2)	(82)	45	5,629
otal	1,006	$ 167,332	194	$ 30,484	(572)	$ (95,593)	(292)	$ (50,348)	3	$ 243	339	$ 52,118

The following tables provide a rollforward of the number and unpaid principal amount of loans in the active repurchase request pipeline, including related unresolved MI cancellation notices and other requests for the three and nine months ended September 30, 2015:

July 1, 2015	Inflows	Resolutions	Adjustments (c)	September 30, 2015

(Dollars in thousands)	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Repurchase/make whole requests:										
FNMA (a)	115	$ 22,420	36	$ 3,664	(36)	$ (3,764)	1	$ 217	116	$ 22,537
FHLMC (a)	16	2,792	4	827	(5)	(789)	1	162	16	2,992
GNMA	4	464		1	(1)	(286)			3	179
Non-Agency whole loan-related	180	27,046	3	461	(23)	(4,398)	(1)		159	23,109
MI Cancellations	30	6,140	11	2,459	(23)	(4,302)	(1)	(304)	17	3,993
MI Curtailments	580	98,168	26	3,764	(42)	(7,397)	3	348	567	94,883
Other requests (b)	137	20,641	93	16,340	(61)	(11,938)	3	414	172	25,457
Total	1,062	$ 177,671	173	$ 27,516	(191)	$ (32,874)	6	$ 837	1,050	$ 173,150

	January 1, 2015		Inflows		Resolutions		Adjustments (c)		September 30, 2015	
(Dollars in thousands)	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Repurchase/make whole requests:										
FNMA (a)	142	$ 27,831	88	$ 10,472	(114)	$ (15,959)		$ 193	116	$ 22,537
FHLMC (a)	19	3,310	14	2,850	(18)	(3,330)	1	162	16	2,992
GNMA	2	69	2	396	(2)	(409)	1	123	3	179
Non-Agency whole loan-related	171	25,827	22	3,895	(34)	(6,768)		155	159	23,109
MI Cancellations	28	6,004	54	10,097	(68)	(12,256)	3	148	17	3,993
MI Curtailments	594	101,063	178	30,451	(203)	(36,256)	(2)	(375)	567	94,883
Other requests (b)	65	10,825	222	35,228	(121)	(21,262)	6	666	172	25,457
Total	1,021	$ 174,929	580	$ 93,389	(560)	$ (96,240)	9	$ 1,072	1,050	$ 173,150

(a) Inflows represent amounts excluded from the DRAs.
(b) Other requests typically include requests for additional information from both GSE and non-GSE purchasers.
(c) Generally, adjustments reflect reclassifications between repurchase requests and MI cancellation notices and/or updates to UPB.

During 2016, the active pipeline decreased $115.2 million to $52.1 million on September 30, 2016. The decrease in the active pipeline was primarily related to the settlement of certain repurchase claims in second quarter 2016. On September 30, 2016, Agencies accounted for approximately 61 percent of the total active pipeline, inclusive of MI cancellation notices, MI curtailments, and all other claims. MI curtailment requests, the largest portion of the active pipeline are intended only to cover the shortfall in MI insurance proceeds, therefore FHN s loss from MI curtailments as a percentage of UPB generally is significantly lower than that of a repurchase or make-whole claim. At September 30, 2016, the active pipeline contained no loan repurchase or make-whole requests from the FH proprietary securitization trustee related to first lien mortgage loans based on claims related to breaches of representations and warranties.

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Repurchase Accrual Methodology

Over the past several years FHN s approach for determining the adequacy of the repurchase and foreclosure reserve has evolved, sometimes substantially, based on changes in information available. Repurchase/make-whole rates vary based on purchaser, vintage, and claim type. For those loans repurchased or covered by a make-whole payment, cumulative average loss severities range between 50 and 60 percent of the UPB.

Repurchase Accrual Approach

Repurchase/Make-whole and Damages obligations and estimates for probable incurred losses associated with loan populations excluded from the DRAs are included in FHN s remaining repurchase liability as of September 30, 2016. Those remaining obligations primarily relate to future MI cancellations, loans included in bulk servicing sales effected prior to the DRAs, and other whole loans sold.

In determining the loss content of GSE loans subject to repurchase requests excluded from the DRAs (primarily loans included in bulk sales), FHN applies a vintage level estimate of loss to all loans sold to the GSEs that were not included in the settlements and which have not had a prior repurchase resolution. First, pre-payment, default, and claim rate estimates are applied by vintage to estimate the aggregate claims expected but not yet resolved. Historical loss factors for each sale vintage and repurchase rates are then applied to estimate total loss content. Loss content related to other whole loan sales is estimated by applying the historical average repurchase and loss severity rates to the current UPB in the active pipeline to calculate estimated losses attributable to the current pipeline. FHN then uses an internal model to calculate loss content by applying historical average loss repurchase and severity rates to historical average inflows. For purposes of estimating loss content, FHN also considers MI cancellations. When assessing loss content related to loans where MI has been cancelled, FHN applies historical loss factors (including repurchase rates and loss severity ratios) to the total unresolved MI cancellations in the active pipeline, as well as applying these factors to historical average inflows to estimate loss content. Additionally, FHN identifies estimated losses related to MI curtailment requests. Management also evaluates the nature of claims from purchasers and/or servicers of loans sold to determine if qualitative adjustments are appropriate.

Repurchase and Foreclosure Liability

The repurchase and foreclosure liability is comprised of reserves to cover estimated loss content in the active pipeline, 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.

The following table provides a rollforward of the legacy mortgage repurchase liability during the three and nine months ended September 30, 2016 and 2015:

Table 22 - Reserves for Repurchase and Foreclosure Losses

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2016**	2015	**2016**	2015
Legacy Mortgage				

Beginning balance	**$ 67,383**	$ 116,554	**$ 114,947**	$ 119,404
Provision for repurchase and foreclosure losses (a)	**(218)**		**(31,618)**	
Net realized gain/(losses)	**(203)**	(1,773)	**(16,367)**	(4,623)
Balance on September 30	**$ 66,962**	$ 114,781	**$ 66,962**	$ 114,781

(a) In second quarter 2016, FHN settled certain repurchase claims which resulted in the reversal of $31.4 million of mortgage repurchase and foreclosure provision.

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

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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 September 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 in Note 10 Contingencies and Other Disclosures.

Other FHN Mortgage Exposures

At September 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 review loans and otherwise to act against loan originators and loan servicers, including 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 September 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 included 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.

MARKET UNCERTAINTIES AND PROSPECTIVE TRENDS

During 2015 and the first three quarters of 2016 the national economy generally exhibited modest growth. However, certain economic indicators have been mixed and the pace of recovery from the 2008-2009 recession has been uneven and could regress. As uncertainties remain surrounding the national economy, the housing market, Fed monetary policy, the competitive landscape (including competition from non-traditional financial service providers), the regulatory and political environment, U.S. government spending generally, and global economic and political situations, FHN may continue to be faced with challenges. Although management considers asset quality at FHN to be strong, external factors may result in increased credit costs and loan loss provisioning and could also suppress loan demand from borrowers and further increase competition among financial institutions resulting in continued pressure on net interest income. Additionally, a downturn in the economic environment or disruptions in the housing market could affect borrower defaults and actions by MI companies which could result in elevated repurchase, make-whole, or other monetary requests from GSEs and third party whole loan purchasers relative to current projections or could impact losses recognized by investors in FH proprietary securitizations which could result in demands or litigation. See the Repurchase Obligations, Off-Balance Sheet Arrangements, and Other Contractual Obligations section within this MD&A, and Note 10 Contingencies and Other Disclosures within this report for additional discussion regarding FHN s repurchase obligations.

In recent years, the Federal Reserve has implemented significant economic strategies that have impacted interest rates, inflation, asset values, and the shape of the yield curve, and currently may be transitioning from many years of easing to what may be an extended period of gradual tightening. Effects on the yield curve often are most pronounced at the short end of the curve. Among other things, easing strategies are intended to lower interest rates, flatten the yield curve, expand the money supply, and stimulate economic activity, while tightening strategies are intended to increase interest rates, steepen the yield curve, tighten the money supply, and restrain economic activity. Other things being equal, the current transition from easing to tightening (if it continues) should tend to diminish or reverse downward pressure on rates, and to diminish or eventually end the stimulus effect that low interest rates tend to have on the economy. Many external factors may interfere with the effects of these plans or cause them to change unexpectedly. Such factors include significant economic trends, such as another U.S. contraction or recession, or events as well as significant international monetary policies and events.

Although FHN has little direct exposure to non-U.S.-dollar-denominated assets or to foreign sovereign debt, major adverse events outside the U.S. could have a substantial indirect impact on FHN. Because the U.S. economy and the businesses of many of our customers are linked significantly to global economic and market conditions, a major adverse event could negatively impact liquidity in the U.S. causing funding costs to rise, or could potentially limit availability of funding through conventional markets in a worst-case scenario. FHN also could be adversely affected by events outside of the U.S. impacting hedging or other counterparties, customers with non-U.S. businesses and/or assets denominated in foreign currencies, the U.S. economy, interest rates, inflation/deflation rates, and the regulatory environment should there be a political response to major financial disruptions, all of which could have a financial impact on FHN.

Foreclosure Practices

FHN anticipates continued compliance challenges relating to foreclosure, loss mitigation, and servicing practices in connection with its efforts to comply with regulations and standards issued by the OCC and the CFPB including those relating to vendor management and changes in applicable state law relating to foreclosure and loss mitigation.

In addition, FHN retains exposure for potential deficiencies in servicing related to its legacy servicing business and subservicing arrangements. Further details regarding these legacy matters are provided in Obligations from Legacy Mortgage Businesses Overview Servicing Obligations under Repurchase Obligations, Off-Balance Sheet Arrangements, and Other Contractual Obligations.

CRITICAL ACCOUNTING POLICIES

There have been no significant changes to FHN s critical accounting policies as described in Critical Accounting Policies beginning on page 64 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2015.

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-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. Transition to the new guidance will be accomplished through a combination of retrospective, cumulative-effect adjustment to equity and prospective methodologies. FHN currently estimates that adoption of ASU 2016-09 will result in an increase in tax provision in 2017 between $1.0 million and $2.0 million. The effects on earnings per share calculations and elections to account for forfeitures as incurred are not anticipated to be significant.

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

ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in fiscal years beginning after December 15, 2018. FHN 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.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, which clarifies multiple cash flow presentation issues including providing guidance as to classification on the cash flow statement for certain cash receipts and cash payments where diversity in practice exists. ASU 2016-15 also provides an accounting policy election to classify cash flows from an equity method investee under the cumulative earnings approach or the nature of distribution approach. Finally, ASU 2016-15 provides guidance on the presentation of individual cash flows with characteristics of multiple classifications. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The provisions of ASU 2016-15 should be applied using a retrospective transition method to each period presented. FHN is evaluating the impact of ASU 2016-15 on its current cash flow presentation practices.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

The information called for by this item is contained in

(a) Management s Discussion and Analysis of Financial Condition and Results of Operations included as Item 2 of Part I of this report, including in particular the section entitled Risk Management beginning on page 104 of this report and the subsections entitled Market Risk Management beginning on page 104 and Interest Rate Risk Management beginning on page 106 of this report, and

(b) Note 14 to the Consolidated Condensed Financial Statements appearing on pages 50-55 of this report,

all of which materials are incorporated herein by reference. For additional information concerning market risk and our management of it, refer to: Management s Discussion and Analysis of Financial Condition and Results of Operations appearing in Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2015, including in particular the section entitled Risk Management beginning on page 48 of that Report and the subsections entitled Market Risk Management beginning on page 49 and Interest Rate Risk Management appearing on pages 52-53 of that Report; and Note 22 to the Consolidated Financial Statements appearing on pages 156-161 of Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2015.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. FHN s management, with the participation of FHN s chief executive officer and chief financial officer, has evaluated the effectiveness of FHN s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this quarterly report. Based on that evaluation, the chief executive officer and the chief financial officer have concluded that FHN s disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in Internal Control over Financial Reporting. There have not been any changes in FHN s internal control over financial reporting during FHN s last fiscal quarter that have materially affected, or are reasonably likely to materially affect, FHN s internal control over financial reporting.

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Part II.

OTHER INFORMATION

Item 1 Legal Proceedings

The Contingencies section of Note 10 to the Consolidated Condensed Financial Statements beginning on page 34 of this Report is incorporated into this Item by reference.

Item 1A Risk Factors

Not applicable

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

(a) & (b) Not Applicable

(c) Table 7 captioned Issuer Purchases of Common Stock, including the explanatory notes included in Item 2 of Part I of this report under the heading First Horizon National Corporation Management s Discussion and Analysis of Financial Condition and Results of Operations, beginning on page 90 of this report, is incorporated herein by reference.

Items 3, 4, and 5

Not applicable

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Item 6. Exhibits
(a) Exhibits

Exhibits marked * represent management contracts or compensatory plans or arrangements required to be identified as such and filed as exhibits.

Exhibits marked ** are furnished pursuant to 18 U.S.C. Section 1350 and are not filed as part of this Report or as a separate disclosure document.

Exhibits marked *** contain or consist of interactive data file information which is unaudited and unreviewed.

In many agreements filed as exhibits, each party makes representations and warranties to other parties. Those representations and warranties are made only to and for the benefit of those other parties in the context of a business contract. Such representations and warranties may be partially or fully waived by such parties, or not enforced by such parties, in their discretion. No such representation or warranty may be relied upon by any other person for any purpose.

Exhibit No.	Description
4	FHN agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument defining the rights of the holders of the senior and subordinated long-term debt of FHN and its consolidated subsidiaries.
10.1*	Rate Applicable to Participating Directors and Executive Officers under the Directors and Executives Deferred Compensation Plan
31(a)	Rule 13a-14(a) Certifications of CEO (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)
31(b)	Rule 13a-14(a) Certifications of CFO (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)
32(a)**	18 USC 1350 Certifications of CEO (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)
32(b)**	18 USC 1350 Certifications of CFO (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)
101***	The following financial information from First Horizon National Corporation s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL: (i) Consolidated Condensed Statements of Condition at September 30, 2016 and 2015, and December 31, 2015; (ii) Consolidated Condensed Statements of Income for the Three and Nine Months Ended September 30, 2016 and 2015; (iii) Consolidated Condensed Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2016 and 2015; (iv) Consolidated Condensed Statements of Equity for the Nine Months Ended September 30, 2016 and 2015; (v) Consolidated Condensed Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015; (vi) Notes to Consolidated Condensed Financial Statements.
101.INS***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase
101.LAB***	XBRL Taxonomy Extension Label Linkbase

101.PRE***	XBRL Taxonomy Extension Presentation Linkbase
101.DEF***	XBRL Taxonomy Extension Definition Linkbase

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	FIRST HORIZON NATIONAL CORPORATION	
		(Registrant)
DATE: November 7, 2016	By:	/s/ William C. Losch III
	Name:	William C. Losch III
	Title:	Executive Vice President and Chief Financial Officer
		(Duly Authorized Officer and Principal Financial Officer)

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EXHIBIT INDEX

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