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

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

(Mark one)

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from____ to ____

Commission file number 001-15185

CIK number 0000036966

FIRST HORIZON NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Tennessee (State or other jurisdiction of incorporation or organization)	62-0803242 (I.R.S. Employer Identification No.)
165 Madison Avenue, Memphis, Tennessee (Address of principal executive offices)	38103 (Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No____

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

Accelerated filer ____ Smaller reporting company ___

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

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

Yes No _ x

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock, $.625 par value	126,786,394
Class	Outstanding on March 31, 2008

FIRST HORIZON NATIONAL CORPORATION

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PART I.

FINANCIAL INFORMATION

Item 1. Financial Statements

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

CONSOLIDATED CONDENSED STATEMENTS OF CONDITION — First Horizon National Corporation

(Dollars in thousands)(Unaudited)	March 31 2008	March 31 2007	December 31 2007
Assets:			
Cash and due from banks	$ 851,875	$ 861,534	$ 1,170,220
Federal funds sold and securities purchased under agreements to resell	898,615	1,757,365	1,089,495
Total cash and cash equivalents	1,750,490	2,618,899	2,259,715
Interest-bearing deposits with other financial institutions	46,382	15,739	39,422
Trading securities	1,553,053	2,443,342	1,768,763
Loans held for sale	3,616,018	2,921,629	3,461,712
Loans held for sale-divestiture	207,672	-	289,878
Securities available for sale	3,034,558	3,310,691	3,032,551
Securities held to maturity (fair value of $242 on March 31, 2008; $272 on March 31, 2007; and $242 on December 31, 2007)	240	269	240
Loans, net of unearned income	21,932,020	22,268,190	22,103,516
Less: Allowance for loan losses	483,203	220,806	342,341
Total net loans	21,448,817	22,047,384	21,761,175
Mortgage servicing rights, net	895,923	1,540,041	1,159,820
Goodwill	192,408	275,582	192,408
Other intangible assets, net	52,017	61,672	56,907
Capital markets receivables	1,680,057	1,144,135	524,419
Premises and equipment, net	382,488	445,301	399,305
Real estate acquired by foreclosure	106,018	68,613	103,982
Discontinued assets	-	358	-
Other assets	2,293,045	1,935,111	1,949,308
Other assets-divestiture	8,759	-	15,856
Total assets	$ 37,267,945	$ 38,828,766	$ 37,015,461
Liabilities and shareholders' equity:			
Deposits:			
Savings	$ 4,217,215	$ 3,607,674	$ 3,872,684
Time deposits	2,648,339	2,876,257	2,826,301
Other interest-bearing deposits	1,986,556	1,941,422	1,946,933
Interest-bearing deposits-divestiture	99,370	-	189,051
Certificates of deposit $100,000 and more	2,222,016	8,559,807	3,129,532
Certificates of deposit $100,000 and more-divestiture	1,153	-	12,617
Interest-bearing	11,174,649	16,985,160	11,977,118
Noninterest-bearing	4,995,696	5,506,791	5,026,417
Noninterest-bearing-divestiture	18,197	-	28,750
Total deposits	16,188,542	22,491,951	17,032,285
Federal funds purchased and securities sold under agreements to repurchase	3,678,217	3,173,476	4,829,597
Federal funds purchased and securities sold under agreements to repurchase - divestiture	11,572	-	20,999
Trading liabilities	531,259	678,796	556,144
Commercial paper and other short-term borrowings	4,753,582	819,768	3,422,995
Term borrowings	6,060,795	5,968,789	6,027,967
Other collateralized borrowings	809,273	559,226	800,450

Total long-term debt	6,870,068	6,528,015	6,828,417
Capital markets payables	1,688,870	1,088,340	586,358
Discontinued liabilities	-	32,608	-
Other liabilities	1,136,461	1,205,859	1,305,868
Other liabilities-divestiture	1,870	-	1,925
Total liabilities	34,860,441	36,018,813	34,584,588
Preferred stock of subsidiary	295,277	295,277	295,277
Shareholders' equity			
Preferred stock - no par value (5,000,000 shares authorized, but unissued)	-	-	-
Common stock - $.625 par value (shares authorized - 400,000,000; shares issued and outstanding - 126,786,394 on March 31, 2008; 125,748,602 on March 31, 2007; and 126,366,177 on December 31, 2007)	79,242	78,593	78,979
Capital surplus	362,823	341,491	361,826
Undivided profits	1,704,559	2,155,007	1,742,892
Accumulated other comprehensive (loss)/ income, net	(34,397)	(60,415)	(48,101)
Total shareholders' equity	2,112,227	2,514,676	2,135,596
Total liabilities and shareholders' equity	$ 37,267,945	$ 38,828,766	$ 37,015,461

See accompanying notes to consolidated condensed financial statements.

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

CONSOLIDATED CONDENSED STATEMENTS OF INCOME	First Horizon National Corporation	
	Three Months Ended March 31	
(Dollars in thousands except per share data)(Unaudited)	2008	2007
Interest income:		
Interest and fees on loans	$ 331,676	$ 410,427
Interest on investment securities	40,735	54,270
Interest on loans held for sale	58,438	58,845
Interest on trading securities	35,896	40,563
Interest on other earning assets	9,698	19,080
Total interest income	476,443	583,185
Interest expense:		
Interest on deposits:		
Savings	25,888	26,031
Time deposits	31,502	33,037
Other interest-bearing deposits	5,906	6,889
Certificates of deposit $100,000 and more	31,068	106,276
Interest on trading liabilities	9,615	16,361
Interest on short-term borrowings	70,049	67,164
Interest on long-term debt	74,323	90,008
Total interest expense	248,351	345,766
Net interest income	228,092	237,419
Provision for loan losses	240,000	28,486
Net interest (expense)/ income after provision for loan losses	(11,908)	208,933
Noninterest income:		
Capital markets	131,457	87,113
Deposit transactions and cash management	42,553	39,358
Mortgage banking	158,712	73,097
Trust services and investment management	9,109	9,688
Insurance commissions	8,144	9,789
Revenue from loan sales and securitizations	(4,097)	9,663
Equity securities gains/(losses), net	65,015	3,962
Debt securities gains/(losses), net	931	6,311
Losses on divestitures	(995)	-
All other income and commissions	38,247	44,207
Total noninterest income	449,076	283,188
Adjusted gross income after provision for loan losses	437,168	492,121
Noninterest expense:		
Employee compensation, incentives and benefits	287,470	246,343
Occupancy	28,591	28,784
Equipment rentals, depreciation and maintenance	15,011	17,613
Operations services	18,964	17,821
Communications and courier	11,004	11,540
Amortization of intangible assets	2,440	2,825
All other expense	74,797	78,086
Total noninterest expense	438,277	403,012
(Loss)/income before income taxes	(1,109)	89,109
(Benefit)/provision for income taxes	(8,146)	18,802
Income from continuing operations	7,037	70,307

Income from discontinued operations, net of tax		883		240
Net income	$	7,920	$	70,547
Earnings per common share (Note 7)	$	.06	$	.56
Diluted earnings per common share (Note 7)	$	.06	$	.55
Weighted average common shares (Note 7)		126,116		125,342
Diluted average common shares (Note 7)		126,660		128,704

See accompanying notes to consolidated condensed financial statements.

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

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CONSOLIDATED CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY	First Horizon National Corporation	
(Dollars in thousands)(Unaudited)	2008	2007
Balance, January 1	$ 2,135,596	$ 2,462,390
Adjustment to reflect change in accounting for tax benefits (FIN 48)	-	(862)
Adjustment to reflect adoption of measurement date provisions for SFAS No. 158	-	6,233
Adjustment to reflect change in accounting for purchases of life insurance (EITF Issue No. 06-5)	-	(548)
Adjustment to reflect adoption of measurement date provisions for SFAS No. 157	(12,502)	-
Adjustment to reflect change in accounting for split dollar life insurance arrangements (EITF Issue No. 06-4)	(8,530)	-
Net income	7,920	70,547
Other comprehensive income:		
Unrealized fair value adjustments, net of tax:		
Cash flow hedges	(6)	(124)
Securities available for sale	13,179	2,567
Recognized pension and other employee benefit plans net periodic benefit costs	531	1,281
Comprehensive income	21,624	74,271
Cash dividends declared	(25,220)	(56,337)
Common stock repurchased	(68)	(457)
Common stock issued for:		
Stock options and restricted stock	1,120	24,987
Excess tax benefit from stock-based compensation arrangements	(1,531)	3,685
Stock-based compensation expense	1,738	1,283
Other	-	31
Balance, March 31	$ 2,112,227	$ 2,514,676

See accompanying notes to consolidated condensed financial statements.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

		First Horizon National Corporation	
		Three Months Ended March 31	
(Dollars in thousands)(Unaudited)		2008	2007
Operating Activities	Net income	$ 7,920	$ 70,547
	Adjustments to reconcile net income to net cash provided/(used) by operating activities:		
	Provision for loan losses	240,000	28,486
	(Benefit)/ provision for deferred income tax	(8,146)	18,802
	Depreciation and amortization of premises and equipment	11,815	13,712
	Amortization of intangible assets	2,440	2,825
	Net other amortization and accretion	12,809	18,094
	Decrease in derivatives, net	(372,772)	(60,205)
	Market value adjustment on mortgage servicing rights	259,041	17,888
	Provision for foreclosure reserve	2,759	3,440
	Loss on divestiture	995	-
	Stock-based compensation expense	1,738	1,283
	Excess tax benefit from stock-based compensation arrangements	1,531	(3,685)
	Equity securities gains, net	(65,015)	(3,962)
	Debt securities gains, net	(931)	(6,311)
	Net losses on disposal of fixed assets	3,827	378
	Net (increase)/decrease in:		
	Trading securities	200,493	(212,597)
	Loans held for sale	(122,806)	(48,052)
	Capital markets receivables	(1,155,638)	(411,853)
	Interest receivable	13,929	3,068
	Other assets	167,879	(186,912)
	Net increase/(decrease) in:		
	Capital markets payables	1,102,512	288,851
	Interest payable	(11,387)	26,035
	Other liabilities	(279,676)	(106,979)
	Trading liabilities	(24,885)	(111,161)
	Total adjustments	(19,488)	(728,855)
	Net cash used by operating activities	(11,568)	(658,308)
Investing Activities	Available for sale securities:		
	Sales	80,590	612,606
	Maturities	237,946	195,713
	Purchases	(230,535)	(176,961)
	Premises and equipment:		
	Purchases	(8,019)	(7,896)
	Net decrease in securitization retained interests classified as trading securities	14,889	-
	Net decrease/(increase) in loans	88,162	(205,134)
	Net (increase)/decrease in interest-bearing deposits with other financial institutions	(6,960)	2,302
	Proceeds from divestitures, net of cash and cash equivalents	(15,656)	-
	Net cash provided by investing activities	160,417	420,630

Financing Activities	Common stock:		
	Exercise of stock options	511	24,769
	Cash dividends paid	(25,220)	(55,821)
	Repurchase of shares	(68)	(457)
	Excess tax benefit from stock-based compensation arrangements	(1,531)	3,685
	Long-term debt:		
	Issuance	4,502	769,909
	Payments	(47,264)	(83,258)
	Issuance of preferred stock of subsidiary	-	8
	Repurchase of preferred stock of subsidiary	-	(1)
	Net increase/(decrease) in:		
	Deposits	(758,816)	2,278,719
	Short-term borrowings	169,812	(2,227,068)
	Net cash (used)/provided by financing activities	(658,074)	710,485
	Net (decrease)/ increase in cash and cash equivalents	(509,225)	472,807
	Cash and cash equivalents at beginning of period	2,259,715	2,146,092
	Cash and cash equivalents at end of period	$ 1,750,490	$ 2,618,899
	Total interest paid	258,300	319,282
	Total income taxes paid	146,027	12,152

See accompanying notes to consolidated condensed financial statements.
Certain previously reported amounts have been reclassified to agree with current presentation.

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Note 1 - Financial Information

The unaudited interim consolidated condensed financial statements of First Horizon National Corporation (FHN), including its subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States of America and follow general practices within the industries in which it operates. This preparation requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions are based on information available as of the date of the financial statements and could differ from actual results. In the opinion of management, all necessary adjustments have been made for a fair presentation of financial position and results of operations for the periods presented. The operating results for the interim 2008 periods are not necessarily indicative of the results that may be expected going forward. For further information, refer to the audited consolidated financial statements in the 2007 Annual Report to shareholders.

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

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

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

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

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

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

Note 1 - Financial Information (continued)

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

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

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

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

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

FHN also adopted FASB Statement 133 Implementation Issue No. E23, "Issues Involving the Application of the Shortcut Method under Paragraph 68" (DIG E23) as of January 1, 2008, for hedging relationships designated on or after such date. DIG E23 amends SFAS No. 133 to explicitly permit use of the shortcut method for hedging relationships in which an interest rate swap has a nonzero fair value at inception of the hedging

Note 1 - Financial Information (continued)

relationship which is attributable solely to the existence of a bid-ask spread in the entity's principal market under SFAS No. 157. Additionally, DIG E23 allows an entity to apply the shortcut method to a qualifying fair value hedge when the hedged item has a trade date that differs from its settlement date because of generally established conventions in the marketplace in which the transaction to acquire or issue the hedged item is executed. Preexisting shortcut hedging relationships were analyzed as of DIG E23's adoption date to determine whether they complied with the revised shortcut criteria at their inception or should be dedesignated prospectively. The adoption of DIG E23 had no effect on FHN's financial position or results of operations as all of FHN's preexisting hedging relationships met the requirements of DIG E23 at their inception.

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

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

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

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

Accounting Changes Issued but Not Currently Effective. In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosure about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133" (SFAS No. 161). SFAS No. 161 requires enhanced disclosures related to derivatives accounted for in accordance with SFAS No. 133 and reconsiders existing disclosure requirements for such derivatives and any related hedging items. The disclosures provided in SFAS No. 161 will be required for both interim and annual reporting periods. SFAS No. 161 is effective prospectively for periods beginning after November 15, 2008. FHN is currently assessing the effects of adopting SFAS No. 161.

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

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141-R, "Business Combinations" (SFAS No. 141-R) and Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an Amendment of ARB No. 51" (SFAS No. 160). SFAS No. 141-R requires that an acquirer recognize the assets acquired and liabilities assumed in a business

Note 1 - Financial Information (continued)

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

In June 2007, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 07-1, "Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies" (SOP 07-1), which provides guidance for determining whether an entity is within the scope of the AICPA's Investment Companies Guide. Additionally, SOP 07-1 provides certain criteria that must be met in order for investment company accounting applied by a subsidiary or equity method investee to be retained in the financial statements of the parent company or an equity method investor. SOP 07-1 also provides expanded disclosure requirements regarding the retention of such investment company accounting in the consolidated financial statements. In May 2007, FASB Staff Position No. FIN 46(R)- 7, "Application of FASB Interpretation No. 46(R) to Investment Companies" (FSP FIN 46(R)-7) was issued. FSP FIN 46(R)-7 amends FIN 46(R) to provide a permanent exception to its scope for companies within the scope of the revised Investment Companies Guide under SOP 07-1. In February 2008, the FASB issued FASB Staff Position No. SOP 07-1-1, "The Effective Date of AICPA Statement of Position 07-1" which indefinitely defers the effective date of SOP 07-1 and FSP FIN 46(R)-7.

Note 2 - Acquisitions/Divestitures

Due to efforts initiated by FHN in 2007 to improve profitability, in July 2007 management decided to pursue the sale, closure, or consolidation of 34 full-service First Horizon Bank branches in Atlanta, Baltimore, Dallas and Northern Virginia. In September 2007, it was announced that agreements for the sale of all 34 of the branches had been reached. Aggregate gains of $15.7 million were recognized in fourth quarter 2007 from the disposition of 15 of the branches. Additionally, losses of $1.0 million were recognized in first quarter 2008 from the disposition of the First Horizon Bank branches. Sale of the remaining nine branches in Atlanta closed in May 2008 and resulted in a minimal effect on earnings. This resulted in the transfer of certain fixed assets, including branch locations, and assumption of all the deposit relationships of the First Horizon Bank branches being purchased. The assets and liabilities related to the remaining nine branches to be sold, which are included in the Regional Banking segment, are reflected as held-for-sale on the Consolidated Condensed Statements of Condition. The aggregate carrying amounts of loans, deposits, other assets and other liabilities held for divestiture were $208 million, $119 million, $9 million, and $13 million, respectively, as of March 31, 2008. The losses realized in the first quarter of 2008 from the disposition of First Horizon Bank branches are included in the noninterest income section of the Consolidated Condensed Statements of Income as losses on divestitures.

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

Note 3 - Loans

The composition of the loan portfolio is detailed below:

(Dollars in thousands)	March 31 2008	2007	December 31 2007
Commercial:			
Commercial, financial and industrial	$ 7,238,630	$ 7,371,873	$ 7,140,087
Real estate commercial	1,345,526	1,144,086	1,294,922
Real estate construction	2,602,968	2,931,183	2,753,475
Retail:			
Real estate residential	7,858,109	7,856,197	7,791,885
Real estate construction	1,814,863	2,073,293	2,008,289
Other retail	138,253	151,959	144,019
Credit card receivables	191,119	187,658	204,812
Real estate loans pledged against other collateralized borrowings	742,552	551,941	766,027
Loans, net of unearned income	21,932,020	22,268,190	22,103,516
Allowance for loan losses	483,203	220,806	342,341
Total net loans	$ 21,448,817	$ 22,047,384	$ 21,761,175

Nonperforming loans consist of loans which management has identified as impaired, other nonaccrual loans and loans which have been restructured. On March 31, 2008 and 2007, there were no outstanding commitments to advance additional funds to customers whose loans had been restructured. The following table presents nonperforming loans on:

(Dollars in thousands)	March 31 2008	2007	December 31 2007
Impaired loans	$ 263,671	$ 26,096	$ 126,612
Other nonaccrual loans*	273,581	57,871	180,475
Total nonperforming loans	$ 537,252	$ 83,967	$ 307,087

* On March 31, 2008 and 2007, and on December 31, 2007, other nonaccrual loans included $9.7 million, $10.3 million, and $23.8 million,
respectively, of loans held for sale.

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

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

	Three Months Ended March 31	
(Dollars in thousands)	2008	2007
Total interest on impaired loans	$ 62	$ 340
Average balance of impaired loans	222,034	42,321

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

Activity in the allowance for loan losses related to non-impaired loans, impaired loans, and for the total allowance for the three months ended March 31, 2008 and 2007, is summarized as follows:

(Dollars in thousands)	Non-impaired	Impaired	Total

Balance on December 31, 2006	$ 206,292	$ 9,993	$ 216,285
Provision for loan losses	21,145	7,341	28,486
Divestitures/acquisitions/transfers	2,655	-	2,655
Charge-offs	(18,759)	(10,906)	(29,665)
Recoveries	3,045	-	3,045
Net charge-offs	(15,714)	(10,906)	(26,620)
Balance on March 31, 2007	$ 214,378	$ 6,428	$ 220,806
Balance on December 31, 2007	$ 325,297	$ 17,044	$ 342,341
Provision for loan losses	200,202	39,798	240,000
Charge-offs	(50,678)	(51,078)	(101,756)
Recoveries	2,609	9	2,618
Net charge-offs	(48,069)	(51,069)	(99,138)
Balance on March 31, 2008	$ 477,430	$ 5,773	$ 483,203

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

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Note 4 - Mortgage Servicing Rights

FHN recognizes all its classes of mortgage servicing rights (MSR) at fair value. Classes of MSR are determined in accordance with FHN's risk management practices and market inputs used in determining the fair value of the servicing asset. The balance of MSR included on the Consolidated Condensed Statements of Condition represents the rights to service approximately $99.2 billion of mortgage loans on March 31, 2008, for which a servicing right has been capitalized.

Since sales of MSR tend to occur in private transactions and the precise terms and conditions of the sales are typically not readily available, there is a limited market to refer to in determining the fair value of MSR. As such, like other participants in the mortgage banking business, FHN relies primarily on a discounted cash flow model to estimate the fair value of its MSR. This model calculates estimated fair value of the MSR using predominant risk characteristics of MSR, such as interest rates, type of product (fixed vs. variable), age (new, seasoned, or moderate), agency type and other factors. FHN uses assumptions in the model that it believes are comparable to those used by brokers and other service providers. FHN also periodically compares its estimates of fair value and assumptions with brokers, service providers, and recent market activity and against its own experience. Due to ongoing disruptions in the mortgage market, since third quarter 2007, more emphasis has been placed on third party broker price discovery and, when available, observable market trades in valuation modeling for MSR.

Following is a summary of changes in capitalized MSR as of March 31, 2008 and 2007:

(Dollars in thousands)	First Liens	Second Liens	HELOC
Fair value on January 1, 2007	$ 1,495,215	$ 24,091	$ 14,636
Addition of mortgage servicing rights	84,707	3,998	1,041
Reductions due to loan payments	(61,698)	(2,378)	(1,683)
Changes in fair value due to:			
Changes in current market interest rates	(17,833)	(1)	-
Other changes in fair value	(54)	-	-
Fair value on March 31, 2007	$ 1,500,337	$ 25,710	$ 13,994
Fair value on January 1, 2008	$ 1,122,415	$ 25,832	$ 11,573
Addition of mortgage servicing rights	78,871	-	887
Reductions due to loan payments	(37,448)	(2,617)	(707)
Reductions due to sale	(43,842)	-	-
Changes in fair value due to:			
Changes in valuation model inputs or assumptions	(254,076)	(3,089)	(1,935)
Other changes in fair value	(65)	-	124
Fair value on March 31, 2008	$ 865,855	$ 20,126	$ 9,942

Note 5 - Intangible Assets

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

(Dollars in thousands)	Goodwill	Other Intangible Assets*
December 31, 2006	$ 275,582	$ 64,530
Amortization expense	-	(2,825)
Divestitures	-	(33)
March 31, 2007	$ 275,582	$ 61,672
December 31, 2007	$ 192,408	$ 56,907
Amortization expense	-	(2,440)
Impairment	-	(2,434)
Divestitures	-	(16)
March 31, 2008	$ 192,408	$ 52,017

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

The gross carrying amount of other intangible assets subject to amortization is $133.2 million on March 31, 2008, net of $81.2 million of accumulated amortization. Estimated aggregate amortization expense for the remainder of 2008 is expected to be $6.4 million and is expected to be, $6.9 million, $6.0 million, $5.6 million and $4.1 million for the twelve-month periods of 2009, 2010, 2011 and 2012, respectively.

The following is a summary of goodwill detailed by reportable segments for the three months ended March 31:

(Dollars in thousands)	Regional Banking	Mortgage	Capital