FIRST HORIZON NATIONAL CORP
Form 10-Q
May 07, 2009

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FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

(Mark one)

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

For the quarterly period ended March 31, 2009

OR

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

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 o No o

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. (Check one):

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

(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 o No þ

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 March 31, 2009
Common Stock, $.625 par value	211,594,836

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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 position and results of operations for the interim periods presented.

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CONSOLIDATED CONDENSED STATEMENTS OF CONDITION

First Horizon National Corporation

(Dollars in thousands)(Unaudited)	March 31 2009	March 31 2008	December 31 2008
Assets:			
Cash and due from banks	**$ 438,181**	$ 851,875	$ 552,423
Federal funds sold and securities purchased under agreements to resell	**515,858**	898,615	772,357
Total cash and cash equivalents	**954,039**	1,750,490	1,324,780
Interest-bearing cash	**1,174,442**	46,382	207,792
Trading securities	**933,316**	1,553,053	945,766
Loans held for sale	**643,518**	3,616,018	566,654
Loans held for sale-divestiture		207,672	
Securities available for sale (Note 3)	**3,016,013**	3,034,558	3,125,153
Securities held to maturity (fair value of $ - on March 31, 2009) (Note 3)		240	
Loans, net of unearned income (Note 4)	**20,572,477**	21,932,020	21,278,190
Less: Allowance for loan losses	**940,932**	483,203	849,210
Total net loans	**19,631,545**	21,448,817	20,428,980
Mortgage servicing rights (Note 5)	**381,024**	895,923	376,844
Goodwill (Note 6)	**192,408**	192,408	192,408
Other intangible assets, net (Note 6)	**43,446**	52,017	45,082
Capital markets receivables	**1,502,033**	1,680,057	1,178,932
Premises and equipment, net	**330,299**	382,488	333,931
Real estate acquired by foreclosure	**132,653**	106,018	125,538
Other assets	**2,273,288**	2,293,045	2,170,120
Other assets-divestiture		8,759	
Total assets	**$ 31,208,024**	$ 37,267,945	$ 31,021,980
Liabilities and equity:			
Deposits:			
Savings	**$ 4,396,213**	$ 4,217,215	$ 4,824,939
Time deposits	**2,152,837**	2,648,339	2,294,644
Other interest-bearing deposits	**1,868,902**	1,986,556	1,783,362
Interest-bearing deposits-divestiture		99,370	
Certificates of deposit $100,000 and more	**1,583,928**	2,222,016	1,382,236
Certificates of deposit $100,000 and more-divestiture		1,153	
Interest-bearing	**10,001,880**	11,174,649	10,285,181
Noninterest-bearing	**4,908,175**	4,995,696	3,956,633
Deposits-divestiture		18,197	

Total deposits	**14,910,055**	16,188,542	14,241,814
Federal funds purchased and securities sold under agreements to repurchase	**2,264,077**	3,678,217	1,751,079
Federal funds purchased and securities sold under agreements to repurchase divestiture		11,572	
Trading liabilities	**288,029**	531,259	359,502
Other short-term borrowings and commercial paper	**3,827,278**	4,753,582	4,279,689
Term borrowings	**3,353,464**	6,060,795	4,022,297
Other collateralized borrowings	**736,172**	809,273	745,363
Total long-term debt	**4,089,636**	6,870,068	4,767,660
Capital markets payables	**1,383,447**	1,688,870	1,115,428
Other liabilities	**937,826**	1,136,461	932,176
Other liabilities-divestiture		1,870	
Total liabilities	**27,700,348**	34,860,441	27,447,348
Equity:			
First Horizon National Corporation Shareholders Equity:			
Preferred stock no par value (shares authorized - 5,000,000; shares issued series CPP 866,540 on March 31, 2009 and December 31, 2008) (Note 12)	**786,582**		782,680
Common stock $.625 par value (shares authorized - 400,000,000; shares issued - 211,594,836 on March 31, 2009; 136,617,661 on March 31, 2008; and 210,758,319 on December 31, 2008) *	**132,247**	79,242	128,302
Capital surplus	**1,087,252**	362,823	1,048,602
Capital surplus common stock warrant CPP (Note 12)	**83,860**		83,860
Undivided profits	**1,265,073**	1,704,559	1,387,854
Accumulated other comprehensive loss, net	**(142,503)**	(34,397)	(151,831)
Total First Horizon National Corporation Shareholders Equity	**3,212,511**	2,112,227	3,279,467
Noncontrolling interest (Note 12)	**295,165**	295,277	295,165
Total equity	**3,507,676**	2,407,504	3,574,632
Total liabilities and equity	**$ 31,208,024**	$ 37,267,945	$ 31,021,980

See accompanying notes to consolidated financial statements.

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

* Outstanding shares have been restated to reflect stock dividends declared through March 31, 2009.

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME

First Horizon National Corporation

(Dollars in thousands except per share data)(Unaudited)	Three Months Ended March 31 2009	2008
Interest income:		
Interest and fees on loans	**$ 205,739**	$331,676
Interest on investment securities	**40,102**	40,735
Interest on loans held for sale	**7,732**	58,438
Interest on trading securities	**15,655**	35,896
Interest on other earning assets	**865**	9,698
Total interest income	**270,093**	476,443
Interest expense:		
Interest on deposits:		
Savings	**15,404**	25,888
Time deposits	**18,244**	31,502
Other interest-bearing deposits	**1,068**	5,906
Certificates of deposit $100,000 and more	**9,459**	31,068
Interest on trading liabilities	**5,468**	9,615
Interest on short-term borrowings	**4,263**	70,049
Interest on long-term debt	**19,600**	74,323
Total interest expense	**73,506**	248,351
Net interest income	**196,587**	228,092
Provision for loan losses	**300,000**	240,000
Net interest (expense) after provision for loan losses	**(103,413)**	(11,908)
Noninterest income:		
Capital markets	**214,224**	131,457
Mortgage banking	**115,749**	158,712
Deposit transactions and cash management	**39,032**	42,553
Insurance commissions	**6,918**	8,144
Trust services and investment management	**6,820**	9,109
Gains/(losses) from loan sales and securitizations	**969**	(4,097)
Equity securities gains/(losses), net	**(2)**	65,015
Debt securities gains/(losses), net		931
Losses on divestitures		(995)
All other income and commissions	**24,159**	38,247
Total noninterest income	**407,869**	449,076
Adjusted gross income after provision for loan losses	**304,456**	437,168

Noninterest expense:		
Employee compensation, incentives and benefits	**248,511**	287,470
Operations services	**16,539**	18,964
Occupancy	**16,050**	28,591
Legal and professional fees	**14,108**	15,021
Equipment rentals, depreciation and maintenance	**8,698**	15,011
Communications and courier	**7,204**	11,004
Amortization of intangible assets	**1,636**	2,440
All other expense	**104,582**	55,715
Total noninterest expense	**417,328**	434,216
Income/(loss) before income taxes	**(112,872)**	2,952
Benefit for income taxes	**(47,777)**	(8,146)
Income/(loss) from continuing operations	**(65,095)**	11,098
Income from discontinued operations, net of tax		883
Net income/(loss)	**$ (65,095)**	$ 11,981
Net income attributable to noncontrolling interest	**$ 2,750**	$ 4,061
Net income/(loss) attributable to controlling interest	**$ (67,845)**	$ 7,920
Preferred stock dividends	**14,956**	
Net income/(loss) available to common shareholders	**$ (82,801)**	$ 7,920
Earnings/(loss) per share from continuing operations (Note 8)	**$ (0.39)**	$ 0.05
Diluted earnings/(loss) per share from continuing operations (Note 8)	**$ (0.39)**	$ 0.05
Earnings/(loss) per share available to common shareholders (Note 8)	**$ (0.39)**	$ 0.06
Diluted earnings/(loss) per share available to common shareholders (Note 8)	**$ (0.39)**	$ 0.06
Weighted average common shares (Note 8)	**210,413**	135,896
Diluted average common shares (Note 8)	**210,413**	136,496

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 EQUITY

First Horizon National Corporation

	2009			2008		
(Dollars in thousands)(Unaudited)	Controlling Interest	Noncontrolling Interest	Total	Controlling Interest	Noncontrolling Interest	Total
Balance, January 1	**$3,279,467**	**$295,165**	**$3,574,632**	$2,135,596	$295,277	$2,430,873
Adjustment to reflect adoption of measurement date provisions for SFAS No. 157				(12,502)		(12,502)
Adjustment to reflect change in accounting for split dollar life insurance arrangements (EITF Issue No. 06-4)				(8,530)		(8,530)
Net income/(loss)	**(67,845)**	**2,750**	**(65,095)**	7,920	4,061	11,981
Other comprehensive income/(loss):						
Unrealized fair value adjustments, net of tax:						
Cash flow hedges				(6)		(6)
Securities available for sale	**15,060**		**15,060**	13,179		13,179
Recognized pension and other employee benefit plans net periodic benefit costs	**(5,732)**		**(5,732)**	531		531
Comprehensive income/(loss)	**(58,517)**	**2,750**	**(55,767)**	21,624	4,061	25,685
Preferred stock (CPP) accretion	**3,902**		**3,902**			
Preferred stock (CPP) dividends	**(14,945)**		**(14,945)**			
Cash dividends declared				(25,220)		(25,220)
Common stock repurchased	**(110)**		**(110)**	(68)		(68)
Common stock issued for:						
Stock options and restricted stock	**438**		**438**	1,120		1,120
Excess tax benefit (shortfall) from stock-based compensation arrangements				(1,531)		(1,531)
Stock-based compensation expense	**2,276**		**2,276**	1,738		1,738
Dividends paid to noncontrolling interest of subsidiary preferred stock		**(2,750)**	**(2,750)**		(4,061)	(4,061)
Balance, March 31	**$3,212,511**	**$295,165**	**$3,507,676**	$2,112,227	$295,277	$2,407,504

See accompanying notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Three Months Ended March 31 **2009**	2008
Operating Activities		
Net income/(loss)	**$ (65,095)**	$ 11,981
Adjustments to reconcile net (loss)/income to net cash provided/(used) by operating activities:		
Provision for loan losses	**300,000**	240,000
Benefit for deferred income tax	**(79,844)**	(8,146)
Depreciation and amortization of premises and equipment	**8,502**	11,815
Amortization of intangible assets	**1,636**	2,440
Net other amortization and accretion	**11,420**	12,809
Decrease/(increase) in derivatives, net	**132,651**	(372,772)
Market value adjustment on mortgage servicing rights	**(26,734)**	259,041
Provision for foreclosure reserve	**17,623**	2,759
Loss on divestitures		995
Stock-based compensation expense	**2,276**	1,738
Excess tax benefit (shortfall) from stock-based compensation arrangements		1,531
Equity securities (gains)/losses, net	**2**	(65,015)
Debt securities (gains)/losses, net		(931)
Gains on repurchases of debt	**(60)**	
Net losses on disposal of fixed assets	**1,560**	3,827
Net (increase)/decrease in:		
Trading securities	**30,665**	200,493
Loans held for sale	**(76,864)**	(122,806)
Capital markets receivables	**(323,101)**	(1,155,638)
Interest receivable	**(1,239)**	13,929
Other assets	**(216,541)**	167,879
Net increase/(decrease) in:		
Capital markets payables	**268,019**	1,102,512
Interest payable	**(10,704)**	(11,387)
Other liabilities	**61,466**	(279,058)
Trading liabilities	**(71,473)**	(24,885)
Total adjustments	**29,260**	(18,870)
Net cash used by operating activities	**(35,835)**	(6,889)
Investing Activities		
Available for sale securities:		
Sales	**8,566**	80,590
Maturities	**149,505**	237,946
Purchases	**(21,833)**	(230,535)
Premises and equipment:		
Purchases	**(6,430)**	(8,019)
Net (increase)/decrease in:		
Securitization retained interests classified as trading securities	**(18,215)**	14,889

Loans	**476,224**	88,162
Interest-bearing cash	**(966,650)**	(6,960)
Cash payments related to divestitures		(15,656)
Net cash provided/(used) by investing activities	**(378,833)**	160,417
Financing Activities		
Common stock:		
Exercise of stock options		511
Cash dividends paid		(25,220)
Repurchase of shares	**(109)**	(68)
Cash dividends paid preferred stock CPP	**(10,952)**	
Cash dividends paid preferred stock noncontrolling interest	**(4,209)**	(4,679)
Excess tax benefit from stock-based compensation arrangements		(1,531)
Long-term debt:		
Issuance		4,502
Payments/Maturities	**(664,929)**	(47,264)
Cash paid for repurchase of debt	**(4,710)**	
Net increase/(decrease) in:		
Deposits	**668,249**	(758,816)
Short-term borrowings	**60,587**	169,812
Net cash provided/(used) by financing activities	**43,927**	(662,753)
Net decrease in cash and cash equivalents	**(370,741)**	(509,225)
Cash and cash equivalents at beginning of period	**1,324,780**	2,259,715
Cash and cash equivalents at end of period	**$ 954,039**	$ 1,750,490
Total interest paid	**$ 84,023**	$ 258,300
Total income taxes paid	**$ 106,246**	$ 146,027

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

Notes to Consolidated Condensed Financial Statements

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 2009 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 2008 Annual Report to shareholders.

Investment Securities. Securities that FHN has the ability and positive intent to hold to maturity are classified as securities held to maturity and are carried at amortized cost. The amortized cost of all securities is adjusted for amortization of premium and accretion of discount to maturity, or earlier call date if appropriate, using the level yield method. Such amortization and accretion is included in interest income from securities. Investment securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the degree of loss, the length of time the fair value has been below cost, the expectation for that security s performance, the creditworthiness of the issuer and FHN s intent and ability to hold the security. Upon adoption of FASB Staff Position No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2) for the quarter ended March 31, 2009, the intent and ability to hold to recovery indicator was replaced for debt securities with a requirement that FHN s management assert that it does not intend to sell a security and that it is not more-likely-than-not that it will have to sell the security prior to recovery for the debt security not to be considered other-than-temporarily impaired. Realized gains and losses for investment securities are determined by the specific identification method and reported in noninterest income. Declines in value judged to be other-than-temporary based on FHN s analysis of the facts and circumstances related to an individual investment, including securities that FHN has the intent to sell, are also determined by the specific identification method and reported in noninterest income. After adoption of FSP FAS 115-2, for impaired debt securities that FHN does not intend to sell and that it is not more-likely-than-not that it will be required to sell prior to recovery but for which credit losses exist, the other-than-temporary impairment recognized has been separated between the total impairment related to credit losses which is reported in noninterest income, and the impairment related to all other factors which is excluded from earnings and reported, net of tax, as a component of other comprehensive income within shareholders equity.

Securities that may be sold prior to maturity and equity securities are classified as securities available for sale and are carried at fair value. The unrealized gains and losses on securities available for sale, including debt securities for which no credit impairment exists, are excluded from earnings and are reported, net of tax, as a component of other comprehensive income within shareholders equity.

Loans Held for Sale and Securitization. In conjunction with the adoption of FASB Staff Position No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4), FHN revised its methodology for determining the fair value of certain loans within its mortgage warehouse. FHN now determines the fair value of the applicable loans using a discounted cash flow model using observable inputs, including current mortgage rates for similar products, with adjustments for differences in loan characteristics reflected in the model s discount rates. This change in methodology had a minimal effect on the valuation of the applicable loans. Previously, fair values of these loans were determined through reference to recent security trade prices for similar products, published third party bids or observable whole loan sale prices with adjustments for differences in loan characteristics.

Accounting Changes. In April 2009, the FASB issued FSP FAS 115-2 which replaces the intent and ability to hold to recovery indicator of other-than-temporary impairment in FASB Staff Position No. FAS 115-1 and 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (FSP FAS 115-1) for debt securities. FSP FAS 115-2 specifies that for a debt security not to be considered other-than-temporarily impaired, an entity s management must assert that it does not intend to sell the security and that it is not more-likely-than-not that the entity will have to sell the security prior to recovery of its cost basis. FSP FAS 115-2 requires that for impaired held-to-maturity and available-for-sale debt securities that an entity does not intend to sell and that it is not more-likely-than-not that it will have to sell prior to recovery but for which credit losses exist, the other-than-temporary impairment should be separated between the total impairment related to credit losses, which should be recognized in current earnings, and the amount of impairment related to all other factors, which should be recognized in other comprehensive income. FSP FAS 115-2 discusses the proper interaction of its guidance with other authoritative guidance, including FSP FAS 115-1, which provide additional factors that must be considered in an other-than-temporary

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Note 1 Financial Information (continued)

impairment analysis. FSP FAS 115-2 also provides that in periods in which other-than-temporary impairments are recognized, the total impairment must be presented in the investor s income statement with an offset for the amount of total impairment that is recognized in other comprehensive income. FSP FAS 115-2 requires additional disclosures including a rollforward of amounts recognized in earnings for debt securities for which an other-than-temporary impairment has been recognized and the noncredit portion of the other-than-temporary impairment that has been recognized in other comprehensive income. FSP FAS 115-2 is effective prospectively for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, provided that the provisions of FSP FAS 157-4 are early adopted as well. FHN applied the guidance of FSP FAS 115-2 when assessing debt securities for other-than-temporary impairment as of March 31, 2009 and the effects of adoption were not material.

In April 2009, the FASB issued FSP FAS 157-4 which provides factors that an entity should consider when determining whether a market for an asset is not active. If after evaluating the relevant factors, the evidence indicates that a market is not active, FSP FAS 157-4 provides an additional list of factors that an entity must consider when determining whether events and circumstances indicate that a transaction which occurred in such inactive market is orderly. FSP FAS 157-4 requires that entities place more weight on observable transactions determined to be orderly and less weight on transactions for which there is insufficient information to determine whether the transaction is orderly when determining the fair value of an asset or liability under Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). FSP FAS 157-4 requires enhanced disclosures, including disclosure of a change in valuation technique which results from its application and disclosure of fair value measurements for debt and equity securities by major security types. FSP FAS 157-4 is effective prospectively for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, provided that the provisions of FSP FAS 115-2 are early adopted as well. FHN applied the guidance of FSP FAS 157-4 in its fair value measurements as of March 31, 2009 and the effects of adoption were not significant.

Effective January 1, 2009, FHN adopted the provisions of SFAS No. 157 for existing fair value measurement requirements related to non-financial assets and liabilities which are recognized at fair value on a non-recurring basis. The effective date for the application of SFAS No. 157 s measurement framework to such non-financial assets and liabilities was previously delayed under FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157 . 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. The effect of adopting the provisions of SFAS No. 157 for non-financial assets and liabilities which are recognized at fair value on a non-recurring basis on January 1, 2009, was not significant to FHN. 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. 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 earnings as the $14.2 million positive effect of delivering the loans associated with the commitments existing at the beginning of that quarter was more than offset by a negative impact of $29.9 million for commitments remaining on the balance sheet at the end of that quarter that was previously deferred under EITF 02-3 until delivery of the associated loans. Substantially all commitments existing at August 31, 2008 were sold to MetLife Bank, N.A. (MetLife).

Effective January 1, 2009, FHN adopted Statement of Financial Accounting Standards No. 141-R, Business Combinations (SFAS No. 141-R) and Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51 (SFAS No. 160). SFAS No. 141-R requires that an acquirer recognize the assets acquired and liabilities assumed in a business combination, as well as any noncontrolling interest in the acquiree, at their fair values as of the acquisition date, with limited exceptions. Additionally, SFAS No. 141-R provides that an acquirer cannot specify an effective date for a business combination that is separate from the acquisition date. SFAS No. 141-R also provides that acquisition-related costs which an acquirer incurs should be expensed in the period in which the costs are incurred and the services are received. SFAS No. 160 requires that acquired assets and liabilities be measured at full fair value without consideration to ownership percentage. Under SFAS No. 160, any noncontrolling 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. Upon adoption, the retrospective application of SFAS No. 160 s presentation and disclosure requirements resulted in an

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Note 1 Financial Information (continued)

increase to consolidated net income of $4.1 million for first quarter 2008. FHN also recognized an increase of total shareholders equity of $295.2 million upon adoption of SFAS No. 160 as a result of reclassifying the noncontrolling interest previously recognized on the Consolidated Condensed Statements of Condition as Preferred stock of subsidiary as a separate component of equity.

Effective January 1, 2009, FHN adopted FASB Staff Position No. FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP FAS 141(R)-1). FSP FAS 141(R)-1 amends SFAS No. 141-R to require that an acquirer recognize at fair value as of the acquisition date an asset acquired or liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of the asset or liability can be determined during the measurement period. FSP FAS 141(R)-1 provides that if the acquisition-date fair value of an asset acquired or liability assumed in a business combination that arises from a contingency cannot be determined during the measurement period, the asset or liability should be recognized at the acquisition date if information available before the end of the measurement period indicates that it is probable that an asset existed or a liability had been incurred at the acquisition date and the amount of the asset or liability can be reasonably estimated. Additionally, FSP FAS 141(R)-1 requires enhanced disclosures regarding assets and liabilities arising from contingencies which are recognized at the acquisition date of a business combination, including the nature of the contingencies, the amounts recognized at the acquisition date and the measurement basis applied. The adoption of FSP FAS 141(R)-1 had no effect on FHN s statement of condition or results of operations.

Effective January 1, 2009, FHN adopted Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 requires enhanced disclosures related to derivatives accounted for in accordance with SFAS No. 133 and reconsiders existing disclosure requirements for such derivatives and any related hedging items. The disclosures provided in SFAS No. 161 are required for both interim and annual reporting periods. Upon adoption of SFAS No. 161, FHN revised its disclosures accordingly.

FHN also adopted FASB Staff Position No. FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions (FSP FAS 140-3) as of January 1, 2009, for initial transfers of financial assets executed after such date. 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. The effect of adopting FSP FAS 140-3 was immaterial to FHN.

Effective December 31, 2008, FHN adopted FASB Staff Position No. EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20 (FSP EITF 99-20-1). FSP EITF 99-20-1 amends EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets (EITF 99-20) to align its impairment model with the impairment model in Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115), resulting in a consistent determination of whether other-than-temporary impairments of available for sale or held to maturity debt securities have occurred. Since FHN recognizes all retained interests from securitization transactions at fair value as trading securities and as all of its beneficial interests classified as available for sale securities are outside the scope of EITF 99-20, the effect of adopting FSP EITF 99-20-1 was immaterial to FHN.

Effective December 31, 2008, FHN adopted FASB Staff Position No. FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities about Transfers of Financial Assets and Interests in Variable Interest Entities (FSP FAS 140-4) which requires additional disclosures related to transfers of financial assets as well as FHN s involvement with variable interest entities and qualifying special purpose entities. Upon adoption of FSP FAS 140-4, FHN revised its disclosures accordingly.

Effective December 31, 2008, FHN adopted FASB Staff Position No. FAS 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation

No. 45; and Clarification of the Effective Date of FASB Statement No. 161 (FSP FAS 133-1). FSP FAS 133-1 requires sellers of credit derivatives and similar guarantee contracts to make disclosures regarding the nature, term, fair value, potential losses and recourse provisions for those contracts. Since FHN is not a seller of credit derivatives or similar financial guarantees, the effect of adopting FSP FAS 133-1 was immaterial to FHN.

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

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Note 1 Financial Information (continued)

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 SFAS No. 115, 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. 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. Such impact represented 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 the end of that quarter and (2) mortgage warehouse loans originated in first quarter 2008 accounted for at elected fair value which remained on the balance sheet at the end of that quarter.

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, and has revised disclosure accordingly.

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

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Note 1 Financial Information (continued)

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.

Accounting Changes Issued but Not Currently Effective. In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1). FSP FAS 107-1 amends Statement of Financial Accounting Standards No. 107, Disclosures about Fair Value of Financial Instruments (SFAS No. 107) to require disclosures about fair value of financial instruments in interim financial statements. FSP FAS 107-1 requires that disclosures be included in both interim and annual financial statements of the methods and significant assumptions used to estimate the fair value of financial instruments. FSP FAS 107-1 is effective for periods ending after June 15, 2009, with comparative disclosures required only for periods ending subsequent to initial adoption. FHN is currently assessing the effects of adopting FSP FAS 107-1.

In December 2008, FASB Staff Position No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP FAS 132(R)-1), was issued. FSP FAS 132(R)-1 provides detailed disclosure requirements to enhance the disclosures about an employer s plan assets currently required by Statement of Financial Accounting Standards No. 132(R), Employers Disclosures about Pensions and Other Postretirement Benefits (SFAS No. 132(R)). FSP FAS 132(R)-1 is effective prospectively for annual periods ending after December 15, 2009. FHN is currently assessing the effects of adopting FSP FAS 132(R)-1.

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Note 2 Acquisitions/Divestitures

Effective August 31, 2008, FHN sold more than 230 retail and wholesale mortgage origination offices nationwide, the loan origination and servicing platform, substantially all of FHN s mortgage origination pipeline and related hedges, certain fixed assets and other associated assets to MetLife. MetLife did not acquire any portion of FHN s mortgage loan warehouse. FHN retained its mortgage operations in and around Tennessee, continuing to originate home loans for customers in its regional banking market footprint. FHN also sold servicing assets, and related hedges, on $19.1 billion of first lien mortgage loans and associated custodial deposits. Additionally, FHN entered into a subservicing agreement with MetLife for the remainder of FHN s servicing portfolio. MetLife generally paid book value for the assets and liabilities it acquired, less a purchase price reduction. The assets and liabilities related to the mortgage operations divested were included in the Mortgage Banking segment and were reflected as divestiture on the Consolidated Condensed Statements of Condition for the reporting period ending June 30, 2008. FHN recognized a loss on divestiture of $17.5 million in the third quarter 2008 and a gain on divestiture of $0.9 million in the fourth quarter of 2008. Gains and losses related to this transaction were included in the noninterest income section of the Consolidated Condensed Statements of Income as gains/losses on divestitures.

Due to efforts initiated by FHN in 2007 to improve profitability, FHN sold 34 branches in Atlanta, Baltimore, Dallas, and Northern Virginia which were outside the Regional Bank s footprint. The First Horizon Bank branch sales were completed in 2008 resulting in losses of $1.0 million, $0.4 million, and $1.0 million in the first, second, and fourth quarters of 2008. Aggregate gains of $15.7 million were recognized in fourth quarter 2007 from the disposition of 15 of the branches. These transactions resulted in the transfer of certain loans, certain fixed assets (including branch locations), and assumption of all the deposit relationships of the First Horizon Bank branches that were divested. The assets and liabilities related to the First Horizon Bank branches were included in the Regional Banking segment and were reflected as divestiture on the Consolidated Condensed Statements of Condition for reporting periods ending prior to June 30, 2008. The gains and losses realized on the disposition of First Horizon Bank branches were included in the noninterest income section of the Consolidated Condensed Statements of Income as gains and 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.

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Note 3 Investment Securities

The following tables summarize FHN s securities held to maturity and available for sale on March 31, 2009 and 2008:

	On March 31, 2009			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. Treasuries	$ 47,932	$ 570	$	$ 48,502
Government agency issued MBS (a)	1,156,691	49,272		1,205,963
Government agency issued CMO (a)	1,232,844	38,701		1,271,545
Other U.S. government agencies (a)	127,735	5,376		133,111
States and municipalities	62,220	18		62,238
Other	2,212	2	(57)	2,157
Equity (b)	292,484	107	(94)	292,497
Total securities available for sale (c)	**$2,922,118**	**$94,046**	**$(151)**	**$3,016,013**

(a) Includes securities issued by government sponsored entities.

(b) Includes FHLB and FRB stock, venture capital, money market, and cost method investments.

(c) Includes $2.5 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes. As of March 31, 2009, FHN had pledged $1.2 billion of available for sale securities as collateral for securities sold under repurchase agreements.

(Dollars in thousands)	On March 31, 2008 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities held to maturity:				
States and municipalities	$ 240	$ 2	$	$ 242
Total securities held to maturity	$ 240	$ 2	$	$ 242
Securities available for sale:				
U.S. Treasuries	$ 43,042	$ 32	$	$ 43,074
Government agency issued MBS (a)	1,351,601	21,132		1,372,733
Government agency issued CMO (a)	1,177,684	32,243		1,209,927
Other U.S. government agencies (a)	139,842	1,796	(90)	141,548
States and municipalities	26,530		(19)	26,511
Other	3,556	20	(49)	3,527
Equity (b)	237,252	8	(23)	237,237
Total securities available for sale (c)	$2,979,507	$55,231	$(181)	$3,034,557

(a) Includes securities issued by government sponsored entities.

(b) Includes FHLB and FRB stock, venture capital, money market, and cost method investments.

(c) Includes $2.7 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes. As of March 31, 2008, FHN had pledged $1.6 billion of available for sale securities as collateral for securities sold under repurchase agreements.

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Note 3 Investment Securities (continued)

The following tables provide information on investments within the available for sale portfolio that have unrealized losses on March 31, 2009 and 2008:

	On March 31, 2009					
	Less than 12 months		12 Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasuries	$	$	$	$	$	$
Government agency issued MBS						
Government agency issued CMO						
Other U.S. government agencies						
States and municipalities						
Other			581	(57)	581	(57)
Total debt securities			581	(57)	581	(57)
Equity			137	(94)	137	(94)
Total temporarily impaired securities	$	$	**$718**	**$(151)**	**$718**	**$(151)**

FHN has reviewed investment securities that are in unrealized loss positions in accordance with its accounting policy for other-than-temporary impairment and does not consider them other-than-temporarily impaired. FHN does not intend to sell the debt securities and it is not more-likely-than-not that FHN will be required to sell the securities prior to recovery and the decline in value is not attributable to 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.

	On March 31, 2008					
	Less than 12 months		12 Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasuries	$	$	$	$	$	$
Government agency issued MBS						
Government agency issued CMO						
Other U.S. government agencies			23,868	(90)	23,868	(90)
States and municipalities	1,481	(19)			1,481	(19)
Other	496	(4)	451	(45)	947	(49)
Total debt securities	1,977	(23)	24,319	(135)	26,296	(158)
Equity	209	(23)			209	(23)

Total temporarily impaired securities	**$2,186**	**$(46)**	**$24,319**	**$(135)**	**$26,505**	**$(181)**

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Note 4 Loans

The composition of the loan portfolio is detailed below:

	March 31		December 31
(Dollars in thousands)	**2009**	2008	2008
Commercial:			
Commercial, financial and industrial	**$ 7,716,733**	$ 7,238,630	$ 7,863,727
Real estate commercial	**1,501,964**	1,345,526	1,454,040
Real estate construction	**1,550,158**	2,602,968	1,778,140
Retail:			
Real estate residential	**8,016,018**	7,858,109	8,161,435
Real estate construction	**772,982**	1,814,863	980,798
Other retail	**132,452**	138,253	135,779
Credit card receivables	**180,282**	191,119	189,554
Real estate loans pledged against other collateralized borrowings	**701,888**	742,552	714,717
Loans, net of unearned income	**20,572,477**	21,932,020	21,278,190
Allowance for loan losses	**940,932**	483,203	849,210
Total net loans	**$ 19,631,545**	$ 21,448,817	$ 20,428,980

FHN has a significant concentration of loans secured by residential real estate (52 percent of total loans) primarily in three portfolios. The retail real estate residential portfolio including real estate loans pledged against other collateralized borrowings (42 percent of total loans) was primarily comprised of home equity lines and loans. While this portfolio has been stressed by the downturn in the housing market and rising unemployment, it contains loans extended to strong borrowers with high credit scores and is geographically diversified. The OTC portfolio (4 percent of total loans) has been negatively impacted by the downturn in the housing industry, certain discontinued product types, and the decreased availability of permanent mortgage financing. The Residential CRE portfolio (6 percent of total loans) has also been negatively impacted by the housing industry downturn as builder liquidity has been severely stressed.

As of March 31, 2009, FHN had trust preferred loans to banks and insurance related businesses totaling $.5 billion (2 percent of total loans) that are included within the Commercial, Financial, and Industrial portfolio. Due to higher credit losses experienced throughout the financial services industry and the limited availability of market liquidity, these loans have experienced some stress during the current economic downturn.

On March 31, 2009, FHN did not have any concentrations of 10 percent or more of total Commercial, Financial, and Industrial loans in any single industry.

Nonperforming loans consist of loans which management has identified as impaired, other nonaccrual loans and loans which have been restructured. On March 31, 2009 and 2008, there were no significant outstanding commitments to advance additional funds to customers whose loans had been restructured. The following table presents nonperforming loans on:

	March 31		December 31
(Dollars in thousands)	**2009**	2008	2008
Impaired loans	**$ 526,282**	$ 263,671	$ 474,090

Other nonaccrual loans*	**606,826**	273,581	579,558
Total nonperforming loans	**$ 1,133,108**	$ 537,252	$ 1,053,648

* On March 31, 2009 and 2008, and on December 31, 2008, other nonaccrual loans included $14.5 million, $9.7 million, and $8.5 million, respectively, of loans held for sale.

Note 4 Loans (continued)

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)	**2009**	2008
Total interest income on impaired loans	**$ 243**	$ 62
Average balance of impaired loans	**500,186**	222,034

Activity in the allowance for loan losses related to non-impaired and impaired loans for the three months ended March 31, 2009 and 2008 is summarized as follows:

(Dollars in thousands)	Non-impaired	Impaired	Total
Balance on December 31, 2007	$ 325,883	$ 16,458	$ 342,341
Provision for loan losses	199,615	40,385	240,000
Charge-offs	(50,678)	(51,078)	(101,756)
Recoveries	2,610	8	2,618
Net charge-offs	(48,068)	(51,070)	(99,138)
Balance on March 31, 2008	$ 477,430	$ 5,773	$ 483,203
Balance on December 31, 2008	$ 836,907	$ 12,303	$ 849,210
Provision for loan losses	231,936	68,064	300,000
Charge-offs	(140,655)	(76,506)	(217,161)
Recoveries	6,981	1,902	8,883
Net charge-offs	(133,674)	(74,604)	(208,278)
Balance on March 31, 2009	**$ 935,169**	**$ 5,763**	**$ 940,932**

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Note 5 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 $64 billion of mortgage loans on March 31, 2009, 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, 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. Due to ongoing disruptions in the mortgage market, more emphasis has been placed on third party broker price discovery and, when available, observable market trades in valuing MSR. FHN also periodically compares its estimates of fair value and assumptions with brokers, service providers, and recent market activity and against its own experience.

Following is a summary of changes in capitalized MSR related to proprietary securitization activities utilizing qualifying special purpose entities (QSPEs) as of March 31, 2009 and 2008:

(Dollars in thousands)	First Liens	Second Liens	HELOC
Fair value on January 1, 2008	$230,311	$1,429	$2,260
Addition of mortgage servicing rights			53
Reductions due to loan payments	(5,606)	(76)	(154)
Changes in fair value due to:			
Changes in valuation model inputs or assumptions		(114)	(324)
Fair value on March 31, 2008	**$224,705**	**$1,239**	**$1,835**
Fair value on January 1, 2009	$102,993	$ 981	$1,471
Addition of mortgage servicing rights			11
Reductions due to loan payments	(5,485)	(48)	(87)
Changes in fair value due to:			
Changes in valuation model inputs or assumptions	15,670	(5)	
Fair value on March 31, 2009	**$113,178**	**$ 928**	**$1,395**

Servicing, late and other ancillary fees recognized within mortgage banking income were $18.8 million and $22.0 million for the quarters ended March 31, 2009 and 2008, respectively, related to securitization activity. Servicing, late and other ancillary fees recognized within revenue from loan sales and securitizations were $.3 million for the quarters ended March 31, 2009 and 2008 related to securitization activity.

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Note 5 Mortgage Servicing Rights (continued)

Following is a summary of changes in capitalized MSR related to loan sale activity as of March 31, 2009 and 2008:

(Dollars in thousands)	First Liens	Second Liens	HELOC
Fair value on January 1, 2008	$ 892,104	$24,403	$ 9,313
Addition of mortgage servicing rights	78,871		834
Reductions due to loan payments	(31,842)	(2,541)	(553)
Reductions due to sale	(43,842)		
Changes in fair value due to:			
Changes in valuation model inputs or assumptions	(254,076)	(2,975)	(1,611)
Other changes in fair value	(65)		124
Fair value on March 31, 2008	**$ 641,150**	**$18,887**	**$ 8,107**
Fair value on January 1, 2009	$ 251,404	$12,576	$ 7,419
Addition of mortgage servicing rights	189		
Reductions due to loan payments	(11,997)	(2,475)	(330)
Changes in fair value due to:			
Changes in valuation model inputs or assumptions	11,069		
Other changes in fair value	(2,500)		168
Fair value on March 31, 2009	**$ 248,165**	**$10,101**	**$ 7,257**

Servicing, late and other ancillary fees recognized within mortgage banking income were $16.4 million and $52.4 million for the quarters ended March 31, 2009 and 2008, respectively, related to loan sale activity. Servicing, late and other ancillary fees recognized within revenue from loan sales and securitizations were $3.5 million and $4.3 million for the quarters ended March 31, 2009 and 2008, respectively, related to loan sale activity.

FHN services a portfolio of mortgage loans related to transfers performed by other parties utilizing QSPEs. FHN s MSR represents its sole interest in these transactions. The total MSR recognized by FHN related to these transactions was $7.4 million and $72.3 million at March 31, 2009 and 2008, respectively. The aggregate principal balance serviced by FHN for these transactions was $1.1 billion and $5.8 billion at March 31, 2009 and 2008, respectively. FHN has no obligation to provide financial support and has not provided any form of support to the related trusts. The MSR recognized by FHN has been included in the first lien mortgage loans column within the rollforward of MSR resulting from loan sales activity.

As of March 31, 2009, FHN had transferred $143.4 million of MSR to third parties in transactions that did not qualify for sales treatment due to certain recourse provisions that were included within the sale agreements. These MSR are included within the first liens mortgage loans column within the rollforward of MSR resulting from loan sales activity. The proceeds from these transfers have been recognized within commercial paper and other short term borrowings in the Consolidated Condensed Statements of Condition as of March 31, 2009. Since MSR are recognized at fair value and since changes in the fair value of related financing liabilities will exactly mirror the change in fair value of the associated servicing assets, management elected to account for the financing liabilities at fair value under SFAS No. 159.

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Note 6 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, 2007	$192,408	$56,907
Amortization expense		(2,440)
Impairment		(2,434)
Divestitures		(16)
March 31, 2008	$192,408	$52,017
December 31, 2008	$192,408	$45,082
Amortization expense		(1,636)
March 31, 2009	$192,408	$43,446

* 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 $133.6 million on March 31, 2009, net of $90.2 million of accumulated amortization. Estimated aggregate amortization expense is expected to be $4.5 million for the remainder of 2009, and $5.9 million, $5.7 million, $4.2 million, $3.9 million and $3.6 million for the twelve-month periods of 2010, 2011, 2012, 2013 and 2014, respectively.

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

(Dollars in thousands)	Regional Banking	Capital Markets	Total
December 31, 2007	$77,342	$115,066	$192,408
March 31, 2008	**$77,342**	**$115,066**	**$192,408**
December 31, 2008	$77,342	$115,066	$192,408
March 31, 2009	**$77,342**	**$115,066**	**$192,408**

There is no associated goodwill with the Mortgage Banking, National Specialty Lending, and Corporate segments.

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Note 7 - Regulatory Capital

FHN is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on FHN s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines that involve quantitative measures of assets, liabilities and certain derivatives as calculated under regulatory accounting practices must be met. Capital amounts and classification are also subject to qualitative judgment by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require FHN to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets (leverage). Management believes, as of March 31, 2009, that FHN met all capital adequacy requirements to which it was subject.

The actual capital amounts and ratios of FHN and FTBNA are presented in the table below. In addition, FTBNA must also calculate its capital ratios after excluding financial subsidiaries as defined by the Gramm-Leach-Bliley Act of 1999. Based on this calculation, FTBNA s Total Capital, Tier 1 Capital, and Leverage ratios were 18.20 percent, 13.86 percent and 11.41 percent, respectively, on March 31, 2009, and were 11.69 percent, 7.61 percent and 6.24 percent, respectively, on March 31, 2008.

	First Horizon National Corporation			First Tennessee Bank National Association		
(Dollars in thousands)	Amount		Ratio	Amount		Ratio
On March 31, 2009:						
Actual:						
Total Capital	$5,004,558		20.20%	$4,731,268		19.27%
Tier 1 Capital	3,708,962		14.97	3,518,478		14.33
Leverage	3,708,962		12.23	3,518,478		11.69
For Capital Adequacy Purposes:						
Total Capital	1,981,748	≥	8.00	1,963,701	≥	8.00
Tier 1 Capital	990,874	≥	4.00	981,851	≥	4.00
Leverage	1,213,301	≥	4.00	1,204,230	≥	4.00
To Be Well Capitalized Under Prompt Corrective Action Provisions:						
Total Capital				2,454,626	≥	10.00
Tier 1 Capital				1,472,776	≥	6.00
Leverage				1,505,287	≥	5.00
On March 31, 2008:						
Actual:						
Total Capital	$3,864,902		13.01%	$3,667,303		12.42%
Tier 1 Capital	2,443,900		8.23	2,348,599		7.95
Leverage	2,443,900		6.62	2,348,599		6.41
For Capital Adequacy Purposes:						
Total Capital	2,376,745	≥	8.00	2,362,202	≥	8.00
Tier 1 Capital	1,188,373	≥	4.00	1,181,101	≥	4.00
Leverage	1,476,794	≥	4.00	1,466,461	≥	4.00

To Be Well Capitalized Under Prompt Corrective Action Provisions:			
Total Capital	2,952,753	≥	10.00
Tier 1 Capital	1,771,652	≥	6.00
Leverage	1,833,076	≥	5.00

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Note 8 Earnings per Share

The following table shows a reconciliation of the numerators used in calculating earnings per share:

(In thousands, except per share data)	Three Months Ended March 31 **2009**	2008
Income/(loss) from continuing operations	**$(65,095)**	$11,098
Income from discontinued operations, net of tax		883
Net income/(loss)	**$(65,095)**	$11,981
Income/(loss) from continuing operations	**$(65,095)**	$11,098
Income attributable to noncontrolling interest	**2,750**	4,061
Preferred stock dividends	**14,956**	
Net income/(loss) from continuing operations available to common shareholders	**$(82,801)**	$ 7,037
Net income/(loss)	**$(65,095)**	$11,981
Income attributable to noncontrolling interest	**2,750**	4,061
Preferred stock dividends	**14,956**	
Net income/(loss) available to common shareholders	**$(82,801)**	$ 7,920

The following table provides a reconciliation of weighted average common to diluted shares:

(In thousands, except per share data)	Three Months Ended March 31 **2009**	2008
Weighted average common shares	**210,413**	135,896
Effect of dilutive securities		601
Diluted average common shares	**210,413**	136,497

The following tables provide a reconciliation of earnings per share from continuing operations:

Earnings/(loss) per common share from continuing operations:	Three Months Ended March 31 **2009**	2008
Income/(loss) from continuing operations	**$(0.31)**	$0.08
Income attributable to noncontrolling interest	**0.01**	0.03
Preferred stock dividends	**0.07**	
Earnings/(loss) per common share from continuing operations	**$(0.39)**	$0.05

Diluted earnings/(loss) per common share from continuing operations:		
Income/(loss) from continuing operations	**$(0.31)**	$0.08
Income attributable to noncontrolling interest	**0.01**	0.03
Preferred stock dividends	**0.07**	
Diluted earnings/(loss) per common share from continuing operations	**$(0.39)**	$0.05

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Note 8 Earnings per Share (continued)

The following table provides a reconciliation of earnings per share from net income available to common shareholders:

(In thousands, except per share data)	Three Months Ended March 31	
Earnings/(loss) per common share:	**2009**	2008
Income/(loss) from continuing operations	**$(0.31)**	$0.08
Income from discontinued operations, net of tax		0.01
Net income/(loss)	**(0.31)**	0.09
Income attributable to noncontrolling interest	**0.01**	0.03
Preferred stock dividends	**0.07**	
Earnings/(loss) per common share	**$(0.39)**	$0.06
Diluted earnings/(loss) per common share:		
Income/(loss) from continuing operations	**$(0.31)**	$0.08
Income from discontinued operations, net of tax		0.01
Net income/(loss)	**(0.31)**	0.09
Income attributable to noncontrolling interest	**0.01**	0.03
Preferred stock dividends	**0.07**	
Diluted earnings/(loss) per common share	**$(0.39)**	$0.06

Due to the net loss attributable to common shareholders for the three months ended March 31, 2009, no potentially dilutive shares were included in the loss per share calculations as including such shares would have been antidilutive. Stock options of 14.4 million and 17.3 million with a weighted average exercise price of $32.06 and $33.14 per share for the three months ended March 31, 2009, and 2008, respectively, were not included in the computation of diluted loss per common share because such shares would have had an antidilutive effect on earnings per common share. Other equity awards of 1.3 million and .3 million for the three months ended March 31, 2009, and 2008, respectively, were also excluded because inclusion would have been antidilutive. 13.3 million potentially dilutive shares related to the CPP common stock warrant were excluded from the first quarter 2009, computation of diluted loss per common share because such shares would have had an antidilutive effect on loss per common share.

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Note 9 Contingencies and Other Disclosures

Contingencies. Contingent liabilities arise in the ordinary course of business, including those related to litigation. Various claims and lawsuits are pending against FHN and its subsidiaries. In view of the inherent difficulty of predicting the outcome of legal 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, FHN cannot state with confidence what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss or impact related to each pending matter may be. FHN establishes loss contingency reserves for litigation matters when estimated loss is both probable and estimable as prescribed by applicable financial accounting guidance. A reserve generally is not established when a loss contingency either is not probable or its amount is not estimable. If loss for a matter is probable and a range of possible loss outcomes is the best estimate available, accounting guidance generally requires a reserve 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 pending 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.

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

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

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

In October 2008, Visa announced that it had agreed to settle litigation with Discover Financial Services (Discover) for $1.9 billion. $1.7 billion of this settlement amount has funded from the escrow account established as part of Visa s IPO. In connection with this settlement, FHN recognized additional expense of $11.0 million within noninterest expense in third quarter 2008. In December 2008, Visa deposited additional funds into the escrow account and FHN recognized a corresponding credit to noninterest expense of $11.0 million for its proportionate share of the amount funded. As of March 31, 2009, FHN s contingent liability for Visa litigation matters was $25.7 million.

After the partial share redemption in conjunction with the IPO, FHN holds approximately 2.4 million Class B shares of Visa, which are included in the Consolidated Condensed Statements of Condition at their historical cost of $0. Conversion of these shares into Class A shares of Visa and, with limited exceptions, transfer of these shares are restricted until the later of the third anniversary of the IPO and the final resolution of the covered litigation. The final conversion ratio, which is currently estimated to approximate 63 percent, will fluctuate based on the ultimate settlement of the Visa litigation matters for which FHN has a proportionate contingent obligation. Future funding of the escrow will dilute this exchange rate by an amount that is yet to be determined.

FHN services a mortgage loan portfolio of approximately $64 billion on March 31, 2009; a significant portion of which is held by GNMA, FNMA, FHLMC or private security holders. In connection with its servicing activities, FHN guarantees the receipt of the scheduled principal and interest payments on the underlying loans. In the event of customer non-performance on the loan, FHN is obligated to make the payment to the security holder. Under the terms of the servicing agreements, FHN can utilize payments received from other prepaid loans in order to make the security holder whole. In the event payments are ultimately made by FHN to satisfy this obligation, for loans sold with no recourse, all funds are recoverable from the government agency at foreclosure sale. See Note 13 Loan Sales and Securitizations for additional information on loans sold with recourse.

FHN is also subject to losses in its loan servicing portfolio due to loan foreclosures and other recourse obligations. Certain agencies have the authority to limit their repayment guarantees on foreclosed loans resulting in certain foreclosure costs being borne by servicers. In addition, FHN has exposure on all loans sold with recourse. FHN has various claims for reimbursement, repurchase obligations, and/or indemnification requests outstanding with government agencies or private investors. FHN has evaluated all of its exposure under recourse

Note 9 Contingencies and Other Disclosures (continued)

obligations based on factors, which include loan delinquency status, foreclosure expectancy rates and claims outstanding. Accordingly, FHN had an allowance for losses on the mortgage servicing portfolio of approximately $37.8 million and $20.6 million on March 31, 2009 and 2008, respectively. FHN has sold certain mortgage loans with an agreement to repurchase the loans upon default. For the single-family residential loans, in the event of borrower nonperformance, FHN would assume losses to the extent they exceed the value of the collateral and private mortgage insurance, FHA insurance or VA guarantees. On March 31, 2009 and 2008, FHN had single-family residential loans with outstanding balances of $76.9 million and $99.0 million, respectively, that were serviced on a full recourse basis. On March 31, 2009 and 2008, the outstanding principal balance of loans sold with limited recourse arrangements where some portion of the principal is at risk and serviced by FHN was $3.4 billion and $3.6 billion, respectively. Additionally, on March 31, 2009 and 2008, $1.5 billion and $5.7 billion, respectively, of mortgage loans were outstanding which were sold under limited recourse arrangements where the risk is limited to interest and servicing advances.

FHN has securitized and sold HELOC and second-lien mortgages which are held by private security holders, and on March 31, 2009, the outstanding principal balance of these loans was $199.2 million and $50.2 million, respectively. On March 31, 2008, the outstanding principal balance of securitized and sold HELOC and second-lien mortgages was $247.8 million and $66.7 million, respectively. In connection with its servicing activities, FTBNA does not guarantee the receipt of the scheduled principal and interest payments on the underlying loans but does have residual interests of $8.0 million and $17.1 million on March 31, 2009 and 2008, respectively, which are available to make the security holder whole in the event of credit losses. FHN has projected expected credit losses in the valuation of the residual interest.

FHN has also sold HELOC and second-lien mortgages without recourse through whole loan sales. On March 31, 2009, the outstanding principal balance of these loans was $1.1 billion and $1.8 billion, respectively. On March 31, 2008, the outstanding principal balance of these HELOC and second-lien mortgages was $1.2 billion and $2.2 billion, respectively. FHN does not guarantee the receipt of the scheduled principal and interest payments on the underlying loans but does have an obligation to repurchase the loans for which there is a breach of warranties provided to the buyers. As of March 31, 2009, FHN has recognized a liability of $17.2 million related to these repurchase obligations.

In conjunction with the sale of its servicing platform to MetLife, FHN entered into a three year subservicing arrangement with MetLife for the remaining portion of its servicing portfolio. As part of the subservicing agreement, FHN has agreed to a make-whole arrangement whereby if the number of loans subserviced by MetLife and the direct servicing cost per loan (determined using loans serviced on behalf of both FHN and MetLife) both fall below specified levels, FHN will make a payment to MetLife according to a contractually specified formula. The make-whole payment is subject to a cap, which is $19.4 million if determined in the four quarters immediately following the transaction, and which declines to $15.0 million if triggered in later periods. As part of the divestiture transaction with MetLife, FHN recognized a contingent liability of $1.2 million representing the estimated fair value of its performance obligation under the make-whole arrangement.

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Note 10 Pension and Other Employee Benefits

Pension plan. FHN closed participation in the noncontributory, qualified defined benefit pension plan to employees hired or re-hired on September 1, 2007 or later. This did not impact the benefits of employees currently participating in the plan. Certain employees of FHN s insurance subsidiaries are not covered by the pension plan. Pension benefits are based on years of service, average compensation near retirement, and estimated social security benefits at age 65. FHN contributions are based upon actuarially determined amounts necessary to fund the total benefit obligation. FHN made a $30.0 million contribution in December 2008 to the qualified pension plan. A second contribution may be made in 2009 attributable to the 2008 plan year. This decision will be based upon pension funding requirements under the Pension Protection Act, the maximum deductible under the Internal Revenue Code, and the actual performance of plan assets during 2009. Given these uncertainties, we cannot estimate the amount of a future contribution at this time. The non-qualified pension plans and other postretirement benefit plans are unfunded. Contributions to these plans cover all benefits paid under the non-qualified plans. This amount was $6.2 million for 2008. FHN anticipates this amount will be $5.6 million in 2009.

FHN also maintains nonqualified plans including a supplemental retirement plan that covers certain employees whose benefits under the pension plan have been limited. Additionally, a program was added under the FHN savings plan that is provided only to employees who are not eligible for the pension plan. FHN intends to make a contribution for this plan in 2009 related to the 2008 plan year.

Other employee benefits. FHN provides post-retirement life insurance benefits to certain employees. FHN also provides postretirement medical insurance to retirement-eligible employees. The postretirement medical plan is contributory with retiree contributions adjusted annually and is based on criteria that are a combination of the employee s age and years of service. For any employee retiring on or after January 1, 1995, FHN contributes a fixed amount based on years of service and age at the time of retirement. FHN s post-retirement benefits include prescription drug benefits. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) introduced a prescription drug benefit under Medicare Part D as well as a federal subsidy to sponsors of retiree health care that provide a benefit that is actuarially equivalent to Medicare Part D. FHN anticipates receiving a prescription drug subsidy under the Act through 2012.

The components of net periodic benefit cost for the three months ended March 31 are as follows:

	Pension Benefits		Other Benefits	
(Dollars in thousands)	**2009**	2008	**2009**	2008
Components of net periodic benefit cost				
Service cost	**$ 4,401**	$ 4,208	**$ 339**	$ 72
Interest cost	**7,926**	7,340	**990**	390
Expected return on plan assets	**(11,582)**	(11,791)	**(279)**	(439)
Amortization of unrecognized:				
Transition obligation			**247**	247
Prior service cost/(credit)	**190**	216	**617**	(44)
Actuarial loss/(gain)	**1,973**	493	**(124)**	(58)
Net periodic benefit cost	**$ 2,908**	$ 466	**$1,790**	$ 168

The 2009 net periodic benefit costs of Other Benefits includes the first quarter 2009 expense related to company-paid life insurance benefits offered to certain employees beyond retirement. A liability for these benefits was not previously recorded as premiums were expensed when incurred. A $10.7 million cumulative adjustment related to prior periods is not included in the 2009 net periodic benefit cost. See Note 18 Other Events for more details.

Note 11 Business Segment Information

FHN has five business segments, Regional Banking, Capital Markets, National Specialty Lending, Mortgage Banking and Corporate. The Regional Banking segment offers financial products and services, including traditional lending and deposit taking, to retail and commercial customers in Tennessee and surrounding markets. Additionally, Regional Banking provides investments, insurance, financial planning, trust services and asset management, credit card, cash management, and check clearing services. The Capital Markets segment consists of traditional capital markets securities activities, equity research, loan sales, portfolio advisory, structured finance and correspondent banking. The National Specialty Lending segment consists of traditional consumer and construction lending activities in other national markets. The Mortgage Banking segment consists of core mortgage banking elements including originations and servicing and the associated ancillary revenues related to these businesses. In August 2008, FHN completed the divestiture of certain mortgage banking operations to MetLife. FHN continues to originate loans in and around the Tennessee banking footprint and to service the remaining servicing portfolio. The Corporate segment consists of restructuring, repositioning and efficiency initiatives, unallocated corporate expenses, expense on subordinated debt issuances and preferred stock, bank- owned life insurance, unallocated interest income associated with excess equity, net impact of raising incremental capital, revenue and expense associated with deferred compensation plans, funds management, and venture capital. Periodically, FHN adapts its segments to reflect changes in expense allocations among segments. Previously reported amounts have been reclassified to agree with current presentation.

Total revenue, expense and asset levels reflect those which are specifically identifiable or which are allocated based on an internal allocation method. Because the allocations are based on internally developed assignments and allocations, they are to an extent subjective. This assignment and allocation has been consistently applied for all periods presented. The following table reflects the amounts of consolidated revenue, expense, tax, and assets for each segment for the three months ended March 31:

	Three Months Ended March 31	
(Dollars in thousands)	**2009**	2008
Consolidated		
Net interest income	**$ 196,587**	$ 228,092
Provision for loan losses	**300,000**	240,000
Noninterest income	**407,869**	449,076
Noninterest expense	**417,328**	434,216
Income/(loss) before income taxes	**(112,872)**	2,952
Benefit for income taxes	**(47,777)**	(8,146)
Income/(loss) from continuing operations	**(65,095)**	11,098
Income from discontinued operations, net of tax		883
Net income/(loss)	**$ (65,095)**	$ 11,981
Average assets	**$30,467,211**	$37,162,385
Regional Banking		
Net interest income	**$ 105,969**	$ 120,483
Provision for loan losses	**97,826**	75,265
Noninterest income	**76,290**	87,204
Noninterest expense	**173,725**	151,154

Loss before income taxes	**(89,292)**	(18,732)
Benefit for income taxes	**(38,930)**	(15,409)
Loss from continuing operations	**(50,362)**	(3,323)
Income from discontinued operations, net of tax		883
Net loss	**$ (50,362)**	$ (2,440)
Average assets	**$11,727,644**	$12,226,460

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

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Note 11 Business Segment Information (continued)

(Dollars in thousands)	Three Months Ended March 31 **2009**	2008
Capital Markets		
Net interest income	**$ 23,407**	$ 19,783
Provision for loan losses	**14,009**	15,031
Noninterest income	**216,690**	133,905
Noninterest expense	**151,830**	115,812
Income before income taxes	**74,258**	22,845
Provision for income taxes	**27,911**	8,446
Net income	**46,347**	14,399
Average assets	**$4,505,502**	$5,810,039
National Specialty Lending		
Net interest income	**$ 33,361**	$ 54,221
Provision for loan losses	**188,573**	149,482
Noninterest income/(loss)	**(6,670)**	552
Noninterest expense	**30,588**	26,495
Loss before income taxes	**(192,470)**	(121,204)
Benefit for income taxes	**(72,523)**	(46,964)
Net loss	**(119,947)**	(74,240)
Average assets	**$7,186,586**	$9,364,284
Mortgage Banking		
Net interest income	**$ 7,563**	$ 30,045
Provision for loan losses	**(408)**	222
Noninterest income	**122,912**	168,014
Noninterest expense	**47,627**	149,587
Income before income taxes	**83,256**	48,250
Provision for income taxes	**31,371**	17,472
Net income	**51,885**	30,778
Average assets	**$2,560,903**	$6,104,249
Corporate		

Net interest income	**$ 26,287**	$ 3,560
Noninterest income	**(1,353)**	59,401
Noninterest expense	**13,558**	(8,832)
Income before income taxes	**11,376**	71,793
Provision for income taxes	**4,394**	28,309
Net income	**$ 6,982**	$ 43,484
Average assets	**$4,486,576**	$3,657,353

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

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Note 12 Preferred Stock and Other Capital

FHN Preferred Stock and Warrant

On November 14, 2008, FHN issued and sold 866,540 preferred shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series CPP (Capital Purchase Program), along with a Warrant to purchase common stock. The issuance occurred in connection with, and is governed by, the Treasury Capital Purchase Program administered by the U.S. Treasury under the Troubled Asset Relief Program (TARP). The Preferred Shares have an annual 5% cumulative preferred dividend rate, payable quarterly. The dividend rate increases to 9% after five years. Dividends compound if they accrue in arrears. Preferred Shares have a liquidation preference of $1,000 per share plus accrued dividends. The Preferred Shares have no redemption date and are not subject to any sinking fund. The Preferred Shares carry certain restrictions. The Preferred Shares have a senior rank and also provide limitations on certain compensation arrangements of executive officers. During the first three years, FHN may not reinstate a cash dividend on its common shares nor purchase equity shares without the approval of the U.S. Treasury, subject to certain limited exceptions. FHN may not reinstate a cash dividend on its common shares to the extent preferred dividends remain unpaid. Generally, the Preferred Shares are non-voting. However, should FHN fail to pay six quarterly dividends, the holder may elect two directors to FHN s Board of Directors until such dividends are paid. In connection with the issuance of the Preferred Shares, a Warrant to purchase 12,743,235 common shares was issued with an exercise price of $10.20 per share. The Warrant is immediately exercisable and expires in ten years. The Warrant is subject to proportionate anti-dilution adjustment in the event of stock dividends or splits, among other things. As a result of the stock dividends paid on January 1, 2009 and April 1, 2009, the Warrant was adjusted to cover 13,323,473 common shares at a purchase price of $9.76 per share.

The Preferred Shares and Warrant qualify as Tier 1 capital and are presented in permanent equity on the Consolidated Condensed Statements of Condition in the amounts of $786.6 million and $83.9 million, respectively.

Subsidiary Preferred Stock

On September 14, 2000, FT Real Estate Securities Company, Inc. (FTRESC), an indirect subsidiary of FHN, issued 50 shares of 9.50% Cumulative Preferred Stock, Class B (Class B Preferred Shares), with a liquidation preference of $1.0 million per share. An aggregate total of 47 Class B Preferred Shares have been sold privately to nonaffiliates. These securities qualify as Tier 2 capital and are presented in the Consolidated Condensed Statements of Condition as Long-term debt . FTRESC is a real estate investment trust (REIT) established for the purpose of acquiring, holding and managing real estate mortgage assets. Dividends on the Class B Preferred Shares are cumulative and are payable semi-annually.

The Class B Preferred Shares are mandatorily redeemable on March 31, 2031, and redeemable at the discretion of FTRESC in the event that the Class B Preferred Shares cannot be accounted for as Tier 2 regulatory capital or there is more than an insubstantial risk that dividends paid with respect to the Class B Preferred Shares will not be fully deductible for tax purposes. They are not subject to any sinking fund and are not convertible into any other securities of FTRESC, FHN or any of its subsidiaries. The shares are, however, automatically exchanged at the direction of the Office of the Comptroller of the Currency for preferred stock of FTBNA, having substantially the same terms as the Class B Preferred Shares in the event FTBNA becomes undercapitalized, insolvent or in danger of becoming undercapitalized.

Effective January 1, 2009, FHN adopted SFAS No. 160 which provides that noncontrolling interests should be presented as a separate component of equity rather than on a mezzanine level. In accordance with SFAS No. 160, the balance for noncontrolling interests associated with preferred stock previously issued by the following indirect, wholly-owned subsidiaries of FHN has been included in the equity section of the Consolidated Condensed Statements of Condition for all periods presented.

First Horizon Preferred Funding, LLC and First Horizon Preferred Funding II, LLC have each issued $1.0 million of Class B Units of preferred stock. On March 31, 2009 and 2008, the amount of Class B Preferred Shares and Units that are perpetual in nature that was recognized as Noncontrolling interest on the Consolidated Condensed Statements of Condition was $.3 million and $.5 million, respectively. The remaining balance has been eliminated in consolidation. Prior to the adoption of SFAS No. 160, the balance for these preferred shares was recognized as Preferred stock of subsidiary on the Consolidated Condensed Statements of Condition.

On March 23, 2005, FTBNA issued 300,000 shares of Class A Non-Cumulative Perpetual Preferred Stock (Class A Preferred Stock) with a liquidation preference of $1,000 per share. These securities qualify as Tier 1 capital. On March 31, 2009 and 2008, $294.8 million of Class A Preferred Stock was recognized as Noncontrolling interest on the Consolidated Condensed Statements of Condition. Prior to the adoption of SFAS No. 160, the balance of FTBNA s Class A Preferred Stock was recognized as Preferred stock of subsidiary on the Consolidated Condensed Statements of Condition.

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Note 12 Preferred Stock and Other Capital (continued)

Due to the nature of the subsidiary preferred stock issued by First Horizon Preferred Funding, LLC, First Horizon Preferred Funding II, LLC, and FTBNA, all components of other comprehensive income/(loss) included in the Consolidated Condensed Statements of Shareholders Equity have been attributed solely to FHN as the controlling interest holder. The table below presents the amounts included in the Consolidated Condensed Statements of Income for the three months ended March 31, 2009 and 2008 which are attributable to FHN as controlling interest holder for the following:

	Three Months Ended March 31	
(in thousands)	**2009**	2008
Net income/(loss) from continuing operations	**$(67,845)**	$7,037
Income from discontinued operations, net of tax		883
Net income/(loss)	**$(67,845)**	$7,920

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Note 13 Loan Sales and Securitizations

FHN historically utilized loan sales and securitizations as a significant source of liquidity for its mortgage banking operations. With FHN s current focus on origination of mortgages within its regional banking footprint and the sale of national mortgage origination offices to MetLife, loan sale and securitization activity has decreased significantly since third quarter 2008. Subsequent to the MetLife transaction, FHN generally does not retain financial interests in loans it transfers to third parties. In accordance with applicable accounting standards, loan sale and securitization activity for which FHN has retained an interest in the related transfers is included in this disclosure. For classification purposes, all loans transferred to GSE (e.g., FNMA, FHLMC and GNMA), including those subsequently securitized by an agency, are considered loan sales while transfers attributed to securitizations consist solely of proprietary securitizations executed by FHN.

During first quarter 2009 and 2008, FHN transferred $.4 billion and $7.3 billion, respectively, of single-family residential mortgage loans in sales that were not securitizations. In 2009, these transactions primarily reflect sales to non-GSE third parties. In 2008, these transactions primarily reflect sales to GSE. In first quarter 2009 and 2008, FHN recognized net pre-tax gains of $10.8 million and $85.0 million, respectively, from the sale of single-family residential mortgage loans which includes gains recognized on the capitalization of MSR associated with these loans.

During first quarter 2009 and 2008, FHN transferred $3.3 million and $5.7 million, respectively, of home equity loans and HELOC related to proprietary securitization transactions. In first quarter 2009 and 2008, FHN recognized net pre-tax gains of $.1 million related to HELOC securitizations which include gains recognized on the capitalization of MSR associated with these loans.

In first quarter 2009 and 2008, FHN capitalized approximately $.2 million and $79.7 million, respectively, in originated MSR related to loan sales. In first quarter 2009, there were no significant additions to MSR and in first quarter 2008, FHN capitalized approximately $.1 million in originated MSR related to securitizations. These MSR, as well as other MSR held by FHN, are discussed further in Note 5 Mortgage Servicing Rights. In certain cases, FHN continues to service and receive servicing fees related to the transferred loans, and has also retained interests in loan sales and securitizations including residual interest certificates and financial assets including excess interest (structured as interest-only strips), principal-only strips, interest-only strips, or subordinated bonds. FHN received annual servicing fees approximating .28 percent in first quarter 2009 and .29 percent in 2008 of the outstanding balance of underlying single-family residential mortgage loans. FHN received annual servicing fees approximating .50 percent in first quarter 2009 and 2008 of the outstanding balance of underlying loans for HELOC and home equity loans transferred. The investors and the securitization trusts have no recourse to other assets of FHN for failure of debtors to pay when due. FHN is obligated to repurchase loans under standard representations and warranties provided to the buyers, which include evidence of borrower fraud and failure to adhere to underwriting guidelines.

Interests retained from loan sales, including agency securitizations, include MSR and excess interest. Interests retained from proprietary securitizations include MSR and various financial assets. MSR are initially valued at fair value, and the remaining retained interests are initially valued by allocating the remaining cost basis of the loan between the security or loan sold and the remaining retained interests based on their relative fair values at the time of sale or securitization. MSR are recognized at fair value in periods subsequent to the related sale or securitization with realized and unrealized gains and losses included in current earnings as a component of noninterest income on the Consolidated Condensed Statements of Income.

Financial assets retained in a proprietary or GSE securitization may include certificated residual interests, excess interest (structured as interest-only strips), interest-only strips, principal-only strips, or subordinated bonds. Residual interests represent rights to receive earnings to the extent of excess income generated by the underlying loans. Excess interest represents rights to receive interest from serviced assets that exceed contractually specified rates. Principal-only strips are principal cash flow tranches, and interest-only strips are interest cash flow tranches. Subordinated bonds are bonds with junior priority. All financial assets retained from a securitization are recognized on the Consolidated Condensed Statements of Condition in trading securities at fair value with realized and unrealized gains and losses included in current earnings as a component of noninterest income on the Consolidated Condensed Statements of Income.

As of March 31, 2009 and 2008, $113.2 million and $224.7 million, respectively, of first lien MSR are associated with proprietary securitization transactions with the remainder associated with loan sales. As of March 31, 2009 and 2008,

Note 13 Loan Sales and Securitizations (continued)

second lien MSR includes $.9 million and $1.2 million, respectively, of MSR related to prior securitization activity with the remainder related to loan sales. As of March 31, 2009 and 2008, HELOC MSR included $1.4 million and $1.8 million, respectively, of MSR related to prior securitization activity with the remainder related to loan sales. As of March 31, 2009 and 2008, $60.0 million and $97.7 million, respectively, of excess interest IO are associated with proprietary securitization transactions with the remainder associated with loan sales. All other retained interests relate to securitization activity.

The sensitivity of the fair value of all retained or purchased interests for MSR to immediate 10 percent and 20 percent adverse changes in assumptions on March 31, 2009 are as follows:

(Dollars in thousands except for annual cost to service)	First Liens	Second Liens	HELOC
March 31, 2009			
Fair value of retained interests	$361,343	$11,029	$ 8,652
Weighted average life (in years)	2.7	1.8	2.4
Annual prepayment rate	31.0%	41.9%	34.0%
Impact on fair value of 10% adverse change	$ (18,810)	$ (1,275)	$ (710)
Impact on fair value of 20% adverse change	(35,686)	(2,423)	(1,357)
Annual discount rate on servicing cash flows	11.5%	14.0%	18.0%
Impact on fair value of 10% adverse change	$ (6,265)	$ (253)	$ (258)
Impact on fair value of 20% adverse change	(12,200)	(493)	(500)
Annual cost to service (per loan)*	$ 55	$ 50	$ 50
Impact on fair value of 10% adverse change	(3,196)	(271)	(266)
Impact on fair value of 20% adverse change	(6,392)	(542)	(531)
Annual earnings on escrow	1.6%	.5%	.4%
Impact on fair value of 10% adverse change	$ (4,485)	$ (56)	$ (27)
Impact on fair value of 20% adverse change	(8,999)	(112)	(53)

* The annual cost to service includes an incremental cost to service delinquent loans. Historically, this fair value sensitivity disclosure has not included this incremental cost. The annual cost to service first-lien

mortgage loans without the incremental cost to service delinquent loans was $44 as of March 31, 2009.

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Note 13 Loan Sales and Securitizations (continued)

The sensitivity of the fair value of all retained or purchased interests for MSR to immediate 10 percent and 20 percent adverse changes in assumptions on March 31, 2008, are as follows:

(Dollars in thousands except for annual cost to service)	First Liens	Second Liens	HELOC
March 31, 2008			
Fair value of retained interests	$865,855	$20,126	$ 9,942
Weighted average life (in years)	4.4	2.4	1.9
Annual prepayment rate	20.0%	33.8%	41.0%
Impact on fair value of 10% adverse change	$ (48,824)	$ (1,458)	$ (780)
Impact on fair value of 20% adverse change	(92,794)	(2,771)	(1,483)
Annual discount rate on servicing cash flows	11.2%	14.0%	18.0%
Impact on fair value of 10% adverse change	$ (27,982)	$ (510)	$ (260)
Impact on fair value of 20% adverse change	(54,171)	(993)	(505)
Annual cost to service (per loan)*	$ 55	$ 50	$ 50
Impact on fair value of 10% adverse change	(11,494)	(408)	(292)
Impact on fair value of 20% adverse change	(22,988)	(818)	(583)
Annual earnings on escrow	2.8%	2.4%	2.4%
Impact on fair value of 10% adverse change	$ (17,569)	$ (368)	$ (221)
Impact on fair value of 20% adverse change	(35,137)	(736)	(443)

* The annual cost to service includes an incremental cost to service delinquent loans. Historically, this fair value sensitivity disclosure has not included this incremental cost. The annual cost to service first-lien mortgage loans without the incremental cost to service delinquent loans was $49 as of

March 31, 2008.

The sensitivity of the fair value of retained interests for other residuals to immediate 10 percent and 20 percent adverse changes in assumptions on March 31, 2009, are as follows:

(Dollars in thousands except for annual cost to service)	Excess Interest IO	Certificated PO	IO	Subordinated Bonds	Residual Interest Certificates 2nd Liens	Residual Interest Certificates HELOC
March 31, 2009						
Fair value of retained interests	$142,735	$12,165	$ 303	$3,060	$3,193	$4,757
Weighted average life (in years)	2.8	3.7	7.9	7.2	2.6	2.3
Annual prepayment rate	30.2%	41.8%	10.2%	7.1%	30.0%	27.0%
Impact on fair value of 10% adverse change	$ (8,031)	$ (619)	$ (10)	$ (36)	$ (36)	$ (383)
Impact on fair value of 20% adverse change	(15,292)	(1,293)	(19)	(60)	(67)	(722)
Annual discount rate on residual cash flows	12.4%	40.0%	34.8%	25.7%	34.9%	33.0%
Impact on fair value of 10% adverse change	$ (2,770)	$ (457)	$ (26)	$ (92)	$ (130)	$ (437)
Impact on fair value of 20% adverse change	(5,391)	(879)	(44)	(167)	(245)	(815)

Note 13 Loan Sales and Securitizations (continued)
The sensitivity of the fair value of retained interests for other residuals to immediate 10 percent and 20 percent adverse changes in assumptions on March 31, 2008, are as follows:

(Dollars in thousands except for annual cost to service)	Excess Interest IO	Certificated PO	IO	Subordinated Bonds	Residual Interest Certificates 2nd Liens	Residual Interest Certificates HELOC
March 31, 2008						
Fair value of retained interests	$308,467	$14,517	$ 322	$21,939	$4,506	$12,555
Weighted average life (in years)	4.6	4.4	3.8	8.9	2.5	2.1
Annual prepayment rate	18.5%	33.8%	24.3%	83.1%	33.0%	34.0%
Impact on fair value of 10% adverse change	$ (19,972)	$ (607)	$ (23)	$ (352)	$ (43)	$ (476)
Impact on fair value of 20% adverse change	(36,223)	(1,167)	(43)	(715)	(83)	(898)
Annual discount rate on residual cash flows	12.1%	15.1%	14.0%	39.4%	35.0%	33.0%
Impact on fair value of 10% adverse change	$ (10,619)	$ (511)	$ (11)	$ (1,382)	$ (157)	$ (521)
Impact on fair value of 20% adverse change	(20,522)	(986)	(21)	(2,623)	(300)	(982)

These sensitivities are hypothetical and should not be considered to be predictive of future performance. As the figures indicate, changes in fair value based on a 10 percent variation in assumptions generally cannot necessarily be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated independently from any change in another assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Furthermore, the estimated fair values as disclosed should not be considered indicative of future earnings on these assets.
FHN uses assumptions and estimates in determining the fair value allocated to retained interests at the time of initial securitization. The key economic assumptions used to measure the fair value of the MSR at the date of securitization or loan sale were as follows:

	First Liens	Second Liens	HELOC
Three months ended March 31, 2009			
Weighted average life (in years)	5.0 - 6.1	2.7 - 3.1	1.7 - 1.8
Annual prepayment rate	17.1% - 25.2%	26%-30%	43% - 44%
Annual discount rate	9.3%	14.0%	18.0%
Annual cost to service (per loan)*	$52	$50	$50
Annual earnings on escrow	1.9% - 2.0%	3.80%-5.32%	5.32%
Three months ended March 31, 2008			
Weighted average life (in years)	4.9-5.5	2.7-3.1	1.7-1.8

Annual prepayment rate	15.7%-18.7%	26%-30%	43%-44%
Annual discount rate	9.9%-10.1%	14.0%	18.0%
Annual cost to service (per loan)*	$57-$61	$50	$50
Annual earnings on escrow	2.8%-3.1%	3.80%-5.32%	5.32%

* The annual cost to service includes an incremental cost to service delinquent loans. Historically, the disclosure of annual cost to service assumptions has not included this incremental cost. The annual cost to service loans without the incremental cost to service delinquent loans was $44 for MSR capitalized during the quarter ended March 31, 2009.

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Note 13 Loan Sales and Securitizations (continued)

The key economic assumptions used to measure the fair value of other retained interests at the date of securitization were as follows:

	Excess Interest IO	Certificated PO	Subordinated Bond
March 31, 2008			
Weighted average life (in years)	4.7-5.9	N/A	N/A
Annual prepayment rate	13.7%-19.7%	N/A	N/A
Annual discount rate	11.8%-11.83%	N/A	N/A

There were no securitizations in which FHN retained an interest during the period-ended March 31, 2009.

For the three months ended March 31, 2009 and 2008, cash flows received and paid related to loan sales were as follows:

(Dollars in thousands)	**March 31, 2009**	March 31, 2008
Proceeds from initial sales	**$ 381,030**	$ 7,320,567
Servicing fees retained*	**19,887**	56,717
Purchases of GNMA guaranteed mortgages		21,434
Purchases of delinquent or foreclosed assets	**4,699**	380
Other cash flows received on retained interests	**7,578**	9,722

* Includes servicing fees on MSR associated with loan sales and purchased MSR.

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

For the three months ended March 31, 2009 and 2008, cash flows received and paid related to securitizations were as follows:

(Dollars in thousands)	**March 31, 2009**	March 31, 2008
Proceeds from initial securitizations	**$ 3,287**	$ 5,727
Servicing fees retained	**19,011**	22,329
Purchases of delinquent or foreclosed assets		2,960
Other cash flows received on retained interests	**10,637**	5,167

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

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Note 13 Loan Sales and Securitizations (continued)

As of March 31, 2009, the principal amount of loans transferred through loan sales and securitizations and other loans managed with them, and the principal amount of delinquent loans, in addition to net credit losses during the three months ended March 31, 2009 are as follows:

(Dollars in thousands)	Total Principal Amount of Loans	Principal Amount of Delinquent Loans (a)	Net Credit Losses (b) (c)
	On March 31, 2009		**For the Quarter Ended March 31, 2009**
Type of loan:			
Real estate residential	$ 48,111,299	$ 920,343	$ 128,922
Total loans managed or transferred (d)	$ 48,111,299	$ 920,343	$ 128,922
Loans sold (e)	(39,300,367)		
Loans held for sale (e)	(438,160)		
Loans securitized and sold	(356,754)		
Loans held in portfolio	$ 8,016,018		

(a) Loans 90 days or more past due include $.2 million of GNMA guaranteed mortgages. $493.3 million of delinquent loans have been securitized while $148.5 million have been sold.

(b) Principal amount of loans securitized and sold includes $34.7 billion of loans securitized through GNMA, FNMA or FHLMC. FHN retains interests other than servicing rights on a portion of these securitized loans. No delinquency or net credit loss data is included for the loans securitized through FNMA or FHMLC because these agencies retain credit risk. The remainder of loans securitized and sold were securitized through proprietary trusts, where FHN retained interests other than servicing rights.

(c) $56.6 million associated with loan sales and $18.6 million associated with securitizations.

(d) Transferred loans are real estate residential loans in which FHN has a retained interest other than servicing rights.

(e) $35.5 billion associated with loan sales and $4.6 billion associated with securitizations.

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Note 13 Loan Sales and Securitizations (continued)

As of March 31, 2008, the principal amount of loans transferred through loan sales and securitizations and other loans managed with them, and the principal amount of delinquent loans, in addition to net credit losses during the three months ended March 31, 2008 are as follows:

(Dollars in thousands)	Total Principal Amount of Loans	Principal Amount of Delinquent Loans (a)	Net Credit Losses (b) (c)
	On March 31, 2008		**For the Quarter Ended March 31, 2008**
Type of loan:			
Real estate residential	$ 84,306,861	$ 360,338	$ 50,395
Total loans managed or transferred (d)	$ 84,306,861	$ 360,338	$ 50,395
Loans sold (e)	(73,293,251)		
Loans held for sale (e)	(3,155,501)		
Loans held in portfolio	$ 7,858,109		

(a) Loans 90 days or more past due include $.2 million of GNMA guaranteed mortgages. $149.3 million of delinquent loans have been securitized while $84.2 million have been sold.

(b) Principal amount of loans securitized and sold includes $68.0 billion of loans securitized through GNMA, FNMA or FHLMC. FHN retains interests other than servicing rights on a portion of these securitized loans. No delinquency or net credit loss data is included for the loans securitized through FNMA or FHMLC because these agencies retain credit risk. The remainder of loans securitized and sold were securitized through proprietary trusts, where FHN retained interests other than servicing rights.

(c) $27.7 million associated with loan sales and $2.6 million associated with securitizations.

(d) Transferred loans are real estate residential loans in which FHN has a retained interest other than servicing rights.

(e) $71.0 billion associated with loan sales and $5.3 billion associated with securitizations.

Secured Borrowings. In 2007 and 2006, FTBNA executed several securitizations of retail real estate residential loans for the purpose of engaging in secondary market financing. Since the related trusts did not qualify as QSPE and since the cash flows on the loans are pledged to the holders of the trusts securities, FTBNA recognized the proceeds as secured borrowings in accordance with SFAS No. 140. As of March 31, 2009, FTBNA had recognized $701.9 million of loans net of unearned income and $687.1 million of other collateralized borrowings in its Consolidated Condensed Statements of Condition related to these transactions. As of March 31, 2008, FTBNA had recognized $742.6 million of loans net of unearned income and $730.3 million of other collateralized borrowings in its Consolidated Condensed Statements of Condition related to these transactions. See Note 14 - Variable Interest Entities for additional information.

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Note 14 Variable Interest Entities

Under the provisions of FASB Interpretation No. 46, Consolidation of Variable Interest Entities - revised December 2003 (FIN 46-R), FHN is deemed to be the primary beneficiary and required to consolidate a variable interest entity (VIE) if it has a variable interest that will absorb the majority of the VIE s expected losses, receive the majority of expected residual returns, or both. A VIE exists when equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities by itself. A variable interest is a contractual, ownership or other interest that changes with changes in the fair value of the VIE s net assets or the VIE s cash flows. Expected losses and expected residual returns are measures of variability in the expected cash flow of a VIE.

Consolidated Variable Interest Entities. In 2007 and 2006, FTBNA established several Delaware statutory trusts (Trusts), for the purpose of engaging in secondary market financing. Except for recourse due to breaches of standard representations and warranties made by FTBNA in connection with the sale of the retail real estate residential loans by FTBNA to the Trusts, the creditors of the Trusts hold no recourse to the assets of FTBNA. Additionally, FTBNA has no contractual requirements to provide financial support to the Trusts. Since the Trusts did not qualify as QSPE, FTBNA treated the proceeds as secured borrowings in accordance with SFAS No. 140. FTBNA determined that the Trusts were VIEs because the holders of the equity investment at risk did not have adequate decision making ability over the trusts activities. Thus, FTBNA assessed whether it was the primary beneficiary of the associated trusts. Since there was an overcollateralization of the Trusts, any excess of cash flows received on the transferred loans above the amounts passed through to the security holders would revert to FTBNA. Accordingly, FTBNA determined that it was the primary beneficiary of the Trusts because it absorbed a majority of the expected losses of the Trusts.

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 because the holders of the equity investment at risk do not have adequate decision making ability over the trusts activities. In situations where FTBNA holds a majority of the trust preferreds issued by a trust, it is considered the primary beneficiary of that trust because FTBNA will absorb a majority of the trust s expected losses. FTBNA has no contractual requirements to provide financial support to the trusts. In situations where FTBNA holds a majority, but less than all, of the trust preferreds for a trust, consolidation of the trust results in recognition of amounts received from other parties as debt.

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 because either there is no equity at risk in the trusts or because FHN provided the equity interest to its employees in exchange for services rendered. Given that the trusts were created in exchange for the employees services, FHN is considered the primary beneficiary of the rabbi trusts because it is most closely related to their purpose and design. FHN has the obligation to fund any liabilities to employees that are in excess of a rabbi trust s assets.

Note 14 Variable Interest Entities (continued)

The following table summarizes VIEs consolidated by FHN:

As of March 31, 2009

(Dollars in thousands)

	Assets		Liabilities	
Type	**Carrying Value**	**Classification**	**Carrying Value**	**Classification**
On balance sheet consumer loan securitizations	$701,888	Loans, net of unearned income	$687,087	Other collateralized borrowings
Small issuer trust preferred holdings	465,350	Loans, net of unearned income	30,500	Term borrowings
Rabbi trusts used for deferred compensation plans	85,424	Other assets	51,990	Other liabilities

As of March 31, 2008

(Dollars in thousands)

	Assets		Liabilities	
Type	**Carrying Value**	**Classification**	**Carrying Value**	**Classification**
On balance sheet consumer loan securitizations	$742,552	Loans, net of unearned income	$730,275	Other collateralized borrowings
Small issuer trust preferred holdings	61,900	Loans, net of unearned income	10,000	Term borrowings
Rabbi trusts used for deferred compensation plans	152,572	Other assets	152,160	Other liabilities

Nonconsolidated Variable Interest Entities. Since 1997, First Tennessee Housing Corporation (FTHC), a wholly-owned subsidiary, 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 because FTHC, as the holder of the equity investment at risk, does not have the ability to significantly affect the success of the entity through voting rights. FTHC is not considered the primary beneficiary of the LIHTC partnerships because an agent relationship exists between FTHC and the general partners, whereby the general partners cannot sell, transfer or otherwise encumber their ownership interest without the approval of FTHC. Because this results in a de facto agent relationship between the partners, the general partners are considered the primary beneficiaries because their operations are most closely associated with the LIHTC partnerships operations. FTHC has no contractual requirements to provide financial support to the LIHTC partnerships beyond its initial funding commitments.

FTBNA holds variable interests in trusts which have issued mandatorily redeemable 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. These trusts meet the definition of a VIE because the holders of the equity investment at risk do not have adequate decision making ability over the trusts activities. In situations where FTBNA did not intend to hold the trust preferreds for more than a brief period and situations where FTBNA did not hold a majority of the trust preferreds issued by a trust, it is not considered the primary beneficiary of that trust because FTBNA does not absorb a majority of the expected losses of the trust. FTBNA has no contractual requirements to provide financial support to the trusts.

In third quarter 2007, FTBNA executed a securitization of certain small issuer trust preferreds for which the underlying trust did not qualify as a QSPE under SFAS No. 140. This trust was determined to be a VIE because the holders of the equity investment at risk do not have adequate decision making ability over the trust s activities. FTBNA determined that it was not the primary beneficiary of the trust due to the size and priority of the interests it retained in the securities issued by the trust. Accordingly, FTBNA has accounted for the funds received through the securitization as a collateralized borrowing in its Consolidated Condensed Statement of Condition. FTBNA has no contractual requirement to provide financial support to the trust.

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Note 14 Variable Interest Entities (continued)

In 1996 FHN issued junior subordinated debt to Capital I and Capital II totaling $309.0 million. Both Capital I and Capital II are considered VIEs because FHN s capital contributions to these trusts are not considered at risk in evaluating whether the equity investments at risk in the trusts have adequate decision making ability over the trusts activities. Capital I and Capital II are not consolidated by FHN because the holders of the securities issued by the trusts absorb a majority of expected losses and residual returns.

Wholly-owned subsidiaries of FHN serve as investment advisor and administrator of certain fund of funds investment vehicles, whereby the subsidiaries receive fees for management of the funds operations and through revenue sharing agreements based on the funds performance. The funds are considered VIEs because the holders of the equity at risk do not have voting rights or the ability to control the funds operations. The subsidiaries have not made any investment in the funds. Further, the subsidiaries are not obligated to provide any financial support to the funds. The funds are not consolidated by FHN because its subsidiaries do not absorb a majority of expected losses or residual returns.

The following table summarizes VIEs that are not consolidated by FHN:

As of March 31, 2009

(Dollars in thousands) **Type**	**Maximum Loss Exposure**	**Liability Recognized**	**Classification**
Low Income Housing Partnerships (a) (b)	$ 125,863	$	Other assets
Small Issuer Trust Preferred Holdings	43,000		Loans, net of unearned income
On Balance Sheet Trust Preferred Securitization	65,088	49,086	(c)
Proprietary Trust Preferred Issuances	N/A	309,000	Term borrowings
Management of Fund of Funds	N/A	N/A	N/A

(a) Maximum loss exposure represents $111.9 million of current investments and $13.9 million of contractual funding commitments. Only the current investment amount is included in Other Assets.

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

(c) $112.5 million was classified as Loans, net of unearned income and $1.7 million was classified as Trading securities which are offset by $49.1 million classified as Other collateralized borrowings.

As of March 31, 2008

(Dollars in thousands) **Type**	**Maximum Loss Exposure**	**Liability Recognized**	**Classification**
Low Income Housing Partnerships (a) (b)	$126,546	$	Other assets
Small Issuer Trust Preferred Holdings	438,450		(c)
On Balance Sheet Trust Preferred Securitization	65,006	49,140	(d)
Proprietary Trust Preferred Issuances	N/A	309,000	Term borrowings
Management of Fund of Funds	N/A	N/A	N/A

(a) Maximum loss exposure represents $121.1 million of current investments and $5.5 million of contractual funding commitments. Only the current investment amount is included in Other Assets.

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

(c) $395.5 million was classified as Loans held for sale and $43.0 million was classified as Loans, net of unearned income.

(d) $112.5 million was classified as Loans, net of unearned income and $1.6 million was classified as Trading securities which are offset by $49.1 million classified as Other collateralized borrowings.

Note 15 Derivatives

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

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

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

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

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

On March 31, 2009 and 2008 respectively, FHN had approximately $146.5 million and $36.3 million of cash receivables and $125.1 million and $238.8 million of cash payables related to collateral posting under master netting arrangements with derivative counterparties. Certain of FHN s agreements with derivative counterparties contain provisions that require that FTBNA s debt maintain minimum credit ratings from specified credit rating agencies. If FTBNA s debt were to fall below these minimums, these provisions would be triggered, and the counterparties could terminate the agreements and request 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 were $3.9 million of assets and $15.4 million of liabilities on March 31, 2009. As of March 31, 2009, FHN had posted collateral of $11.4 million in the normal course of business related to these contracts.

Note 15 Derivatives (continued)

Additionally, certain of FHN s derivative agreements contain provisions whereby the collateral posting thresholds under the agreements adjust based on the credit ratings of the counterparties. If the credit rating of FHN and/or FTBNA is lowered, FHN would be required to post additional collateral with the counterparties. The net fair value, determined by individual counterparty, of all derivative instruments with adjustable collateral posting thresholds were $167.8 million of assets and $117.7 million of liabilities on March 31, 2009. As of March 31, 2009, FHN had received collateral of $136.5 million and posted collateral of $106.5 million in the normal course of business related to these agreements.

Mortgage Banking

As a result of the MetLife transaction, mortgage banking origination activity was significantly reduced in the period after third quarter 2008 as FHN focuses on origination within its regional banking footprint. Accordingly, the following discussion of pipeline and warehouse related derivatives is primarily applicable to reporting periods occurring through the third quarter 2008.

Mortgage banking interest rate lock commitments are short-term commitments to fund mortgage loan applications in process (the pipeline) for a fixed term at a fixed price. During the term of an interest rate lock commitment, FHN has the risk that interest rates will change from the rate quoted to the borrower. FHN enters into forward sales contracts with respect to fixed rate loan commitments and futures contracts with respect to adjustable rate loan commitments as economic hedges designed to protect the value of the interest rate lock commitments from changes in value due to changes in interest rates. Under SFAS No. 133, interest rate lock commitments qualify as derivative financial instruments and as such do not qualify for hedge accounting treatment. As a result, the interest rate lock commitments were recorded at fair value with changes in fair value recorded in current earnings as gain or loss on the sale of loans in mortgage banking noninterest income. Prior to the adoption of SAB No. 109 fair value excluded the value of associated servicing rights. Additionally, on January 1, 2008, FHN adopted SFAS No. 157 which affected the valuation of interest rate lock commitments previously measured under the guidance of EITF 02-03 by requiring recognition of concessions upon entry into the lock. Changes in the fair value of the derivatives that serve as economic hedges of interest rate lock commitments are also included in current earnings as a component of gain or loss on the sale of loans in mortgage banking noninterest income. Due to the reduction of mortgage banking origination operations after the MetLife transaction, the fair value of interest rate lock commitments was immaterial as of March 31, 2009.

FHN s warehouse (mortgage loans held for sale) is subject to changes in fair value, due to fluctuations in interest rates from the loan closing date through the date of sale of the loan into the secondary market. Typically, the fair value of the warehouse declines in value when interest rates increase and rises in value when interest rates decrease. To mitigate this risk, FHN enters into forward sales contracts and futures contracts to provide an economic hedge against those changes in fair value on a significant portion of the warehouse. These derivatives are recorded at fair value with changes in fair value recorded in current earnings as a component of the gain or loss on the sale of loans in mortgage banking noninterest income. Upon adoption of SFAS No. 159, FHN elected to prospectively account for substantially all of its mortgage loan warehouse products at fair value upon origination and correspondingly discontinued the application of SFAS No. 133 hedging relationships for all new originations.

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

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

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Note 15 Derivatives (continued)
The following table summarizes FHN s derivatives associated with Mortgage Banking activities for the three months ended March 31, 2009.

		Statements of Condition Presentation				Gains/(Losses)	
(Dollars in thousands)		Assets		Liabilities			Amount
Description	**Notional**	**Classification**	**Amount**	**Classification**	**Amount**	**Classification**	**Recognized**
Pipeline and Warehouse Hedging							
Hedging Instruments:							
Forwards and Futures	$ 17,000	Other assets	N/A	Other liabilities	$ 229	Mortgage banking income	$ 281
Hedged Items:							
Mortgage Warehouse	N/A	Loans held for sale	$308,468	N/A	N/A	Mortgage banking income	$ 1,777 (a)
Mortgage Pipeline	N/A	Other assets	(b)	Other liabilities	(b)	Mortgage banking income	$ (233) (a)
Retained Interests Hedging							
Hedging Instruments:							
Forwards and Futures	$1,750,000	Other assets	$ 32,784	Other liabilities	N/A	Mortgage banking income	$22,509
Interest Rate Swaps and Swaptions	$2,085,000	Other assets	$ 32,511	Other liabilities	$ 7	Mortgage banking income	$19,483
Hedged Items:							
Mortgage Servicing Rights	N/A	Mortgage servicing rights	$361,216	N/A	N/A	Mortgage banking income	$27,278
Other Retained Interests	N/A	Trading securities	$161,458	N/A	N/A	Mortgage banking income	$15,456

(a) Economic hedging is attempted for only a small portion of warehouse loans and pipeline.

(b) Due to the reduction of mortgage banking origination operations after the MetLife transaction, the fair value of interest rate lock commitments was immaterial as of March 31, 2009.

Capital Markets

Capital Markets trades U.S. Treasury, U.S. Agency, mortgage-backed, corporate and municipal fixed income securities, and other securities principally for distribution to customers. When these securit