FIRST HORIZON NATIONAL CORP
Form 10-Q
November 05, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended: **September 30, 2009**

OR

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

For the transition period from_____ to _____
Commission file number: **001-15185**
CIK number: **0000036966**

First Horizon National Corporation
(Exact Name of Registrant as Specified in Charter)

TN	**62-0803242**
(State or Other Jurisdiction of Incorporation)	(IRS Employer Identification No.)

165 MADISON AVENUE	
MEMPHIS, TENNESSEE	**38103**
(Address of Principal Executive Office)	(Zip Code)

Registrant s telephone number, including area code - **(901) 523-4444**
(Former name or former address, if changed from last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes_X_No___
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes___No___
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding on September 30, 2009
Common Stock, $.625 par value	218,653,769

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PART I.
FINANCIAL INFORMATION

Item 1. Financial Statements

The Consolidated Condensed Statements of Condition
The Consolidated Condensed Statements of Income
The Consolidated Condensed Statements of Equity
The Consolidated Condensed Statements of Cash Flows
The Notes to Consolidated Condensed 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		
	September 30		December 31
(Dollars in thousands)(Unaudited)	**2009**	2008	2008
Assets:			
Cash and due from banks	**$328,150**	$815,935	$552,423
Federal funds sold and securities purchased under agreements to resell	**622,733**	921,295	772,357
Total cash and cash equivalents	**950,883**	1,737,230	1,324,780
Interest-bearing cash	**166,352**	37,546	207,792
Trading securities	**701,151**	1,561,024	945,766
Loans held for sale	**502,687**	718,029	566,654
Securities available for sale (Note 3)	**2,645,922**	2,840,739	3,125,153
Loans, net of unearned income (Note 4)	**18,524,685**	21,601,898	21,278,190
Less: Allowance for loan losses	**944,765**	760,456	849,210
Total net loans	**17,579,920**	20,841,442	20,428,980
Mortgage servicing rights (Note 5)	**289,282**	798,491	376,844
Goodwill (Note 6)	**178,381**	192,408	192,408
Other intangible assets, net (Note 6)	**40,498**	46,887	45,082
Capital markets receivables	**797,949**	1,651,547	1,178,932
Premises and equipment, net	**321,788**	336,078	333,931
Real estate acquired by foreclosure	**111,389**	151,461	125,538
Other assets	**2,179,650**	1,891,494	2,170,120
Total assets	**$26,465,852**	$32,804,376	$31,021,980
Liabilities and equity:			
Deposits:			
Savings	**$4,416,121**	$4,350,832	$4,824,939
Time deposits	**2,156,768**	2,510,344	2,294,644
Other interest-bearing deposits	**2,162,059**	1,638,731	1,783,362
Certificates of deposit $100,000 and more	**1,263,331**	1,470,089	1,382,236
Interest-bearing	**9,998,279**	9,969,996	10,285,181
Noninterest-bearing	**4,236,704**	3,808,239	3,956,633
Total deposits	**14,234,983**	13,778,235	14,241,814
Federal funds purchased and securities sold under agreements to repurchase	**2,267,644**	1,890,681	1,751,079
Trading liabilities	**415,293**	380,896	359,502
Other short-term borrowings and commercial paper	**1,739,202**	6,149,073	4,279,689
Term borrowings	**2,368,381**	4,545,791	4,022,297
Other collateralized borrowings	**711,087**	749,797	745,363
Total long-term debt	**3,079,468**	5,295,588	4,767,660

Capital markets payables	**542,829**	1,645,118	1,115,428
Other liabilities	**816,224**	791,867	932,176
Total liabilities	**23,095,643**	29,931,458	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 September 30, 2009 and December 31, 2008) (Note 12)	**794,630**	-	782,680
Common stock - $.625 par value (shares authorized - 400,000,000; shares issued - 218,653,769 on September 30, 2009; 217,503,590 on September 30, 2008; and 217,488,665 on December 31, 2008) *	**136,659**	125,996	128,302
Capital surplus	**1,170,916**	1,016,498	1,048,602
Capital surplus common stock warrant - CPP (Note 12)	**83,860**	-	83,860
Accumulated other comprehensive loss, net	**(116,265)**	(48,037)	(151,831)
Undivided profits	**1,005,244**	1,483,184	1,387,854
Total First Horizon National Corporation Shareholders Equity	**3,075,044**	2,577,641	3,279,467
Noncontrolling interest (Note 12)	**295,165**	295,277	295,165
Total equity	**3,370,209**	2,872,918	3,574,632
Total liabilities and equity	**$26,465,852**	$32,804,376	$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 distributed through October 1, 2009.

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME				**First Horizon National Corporation**
	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands except per share data)(Unaudited)	**2009**	2008	**2009**	2008
Interest income:				
Interest and fees on loans	**$184,910**	$ 281,648	**$ 588,338**	$ 898,743
Interest on investment securities	**33,495**	38,733	**110,057**	118,681
Interest on loans held for sale	**5,820**	29,078	**20,129**	141,732
Interest on trading securities	**11,780**	27,586	**41,502**	93,665
Interest on other earning assets	**355**	6,198	**1,922**	22,350
Total interest income	**236,360**	383,243	**761,948**	1,275,171
Interest expense:				
Interest on deposits:				
Savings	**7,553**	17,005	**31,821**	60,957
Time deposits	**13,980**	22,443	**48,493**	79,216
Other interest-bearing deposits	**1,316**	2,849	**3,280**	11,573
Certificates of deposit $100,000 and more	**5,809**	15,184	**23,236**	63,552
Interest on trading liabilities	**4,691**	8,304	**15,424**	27,319
Interest on short-term borrowings	**2,649**	47,192	**10,447**	166,666
Interest on long-term debt	**9,461**	47,119	**42,673**	175,754
Total interest expense	**45,459**	160,096	**175,374**	585,037
Net interest income	**190,901**	223,147	**586,574**	690,134
Provision for loan losses	**185,000**	340,000	**745,000**	800,000
Net interest income/(expense) after provision for loan losses	**5,901**	(116,853)	**(158,426)**	(109,866)
Noninterest income:				
Capital markets	**129,043**	86,854	**514,127**	320,505
Mortgage banking	**59,211**	106,817	**190,443**	437,947
Deposit transactions and cash management	**41,738**	45,802	**122,585**	135,152
Trust services and investment management	**7,347**	8,154	**21,818**	26,146
Insurance commissions	**5,907**	7,332	**19,380**	22,298
Gains/(losses) from loan sales and securitizations	**2,155**	3,238	**3,676**	(7,843)
Equity securities gains/(losses), net	**65**	(210)	**(267)**	63,833
Debt securities gains, net	**-**	-	**-**	931
Losses on divestitures	**-**	(17,489)	**-**	(18,913)
All other income and commissions	**58,352**	55,575	**115,585**	143,996
Total noninterest income	**303,818**	296,073	**987,347**	1,124,052
Adjusted gross income after provision for loan losses	**309,719**	179,220	**828,921**	1,014,186

Noninterest expense:				
Employee compensation, incentives and benefits	**178,734**	207,423	**614,301**	755,433
Legal and professional fees	**17,077**	16,556	**45,688**	44,710
Occupancy	**16,207**	26,854	**47,465**	84,786
Operations services	**15,392**	18,881	**47,439**	54,454
Equipment rentals, depreciation and maintenance	**8,695**	12,268	**25,561**	45,371
Communications and courier	**6,837**	9,243	**20,688**	30,780
Amortization of intangible assets	**1,445**	1,802	**4,590**	6,424
All other expense	**105,514**	94,488	**354,458**	237,815
Total noninterest expense	**349,901**	387,515	**1,160,190**	1,259,773
Loss before income taxes	**(40,182)**	(208,295)	**(331,269)**	(245,587)
Benefit for income taxes	**(15,368)**	(87,824)	**(136,834)**	(123,088)
Loss from continuing operations	**(24,814)**	(120,471)	**(194,435)**	(122,499)
Loss from discontinued operations, net of tax	**(10,200)**	(1,749)	**(11,156)**	(3,977)
Net loss	**$ (35,014)**	$(122,220)	**$ (205,591)**	$ (126,476)
Net income attributable to noncontrolling interest	**2,969**	2,875	**8,563**	9,780
Net loss attributable to controlling interest	**$ (37,983)**	$(125,095)	**$ (214,154)**	$ (136,256)
Preferred stock dividends	**14,876**	-	**44,688**	-
Net loss available to common shareholders	**$ (52,859)**	$(125,095)	**$ (258,842)**	$ (136,256)
Loss per share from continuing operations (Note 8)	**$ (0.20)**	$ (0.57)	**$ (1.14)**	$ (0.72)
Diluted loss per share from continuing operations (Note 8)	**$ (0.20)**	$ (0.57)	**$ (1.14)**	$ (0.72)
Loss per share available to common shareholders (Note 8)	**$ (0.24)**	$ (0.58)	**$ (1.19)**	$ (0.74)
Diluted loss per share available to common shareholders (Note 8)	**$ (0.24)**	$ (0.58)	**$ (1.19)**	$ (0.74)
Weighted average common shares outstanding - basic (Note 8)	**217,186**	217,062	**217,152**	182,858
Weighted average common shares outstanding - diluted (Note 8)	**217,186**	217,062	**217,152**	182,858

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 under the Fair Value Measurements and Disclosures topic (ASC 820)	**-**	**-**	**-**	(12,502)	-	(12,502)
Adjustment to reflect change in accounting for split dollar life insurance arrangements (ASC 715-60)	**-**	**-**	**-**	(8,530)	-	(8,530)
Net income/(loss)	**(214,154)**	**8,563**	**(205,591)**	(136,256)	9,780	(126,476)
Other comprehensive income/(loss):						
Unrealized fair value adjustments, net of tax:						
Cash flow hedges	**-**	**-**	**-**	(6)	-	(6)
Securities available for sale	**25,216**	**-**	**25,216**	(2,679)	-	(2,679)
Recognized pension and other employee benefit plans net periodic benefit costs	**10,350**	**-**	**10,350**	2,749	-	2,749
Comprehensive income/(loss)	**(178,588)**	**8,563**	**(170,025)**	(136,192)	9,780	(126,412)
Preferred stock - (CPP) accretion	**11,950**	**-**	**11,950**	-	-	-
Preferred stock - (CPP) dividends	**(44,657)**	**-**	**(44,657)**	-	-	-
Cash dividends declared	**-**	**-**	**-**	(64,431)	-	(64,431)
Common stock issuance (69 million shares issued at $10 per share, net of offering costs)	**-**	**-**	**-**	659,659	-	659,659
Common stock repurchased	**(388)**	**-**	**(388)**	(262)	-	(262)
Common stock issued for stock options and restricted stock	**1,681**	**-**	**1,681**	572	-	572
Excess tax benefit (shortfall) from stock-based compensation arrangements	**-**	**-**	**-**	(1,531)	-	(1,531)
Stock-based compensation expense	**5,359**	**-**	**5,359**	5,262	-	5,262
Dividends paid to noncontrolling interest of subsidiary preferred stock	**-**	**(8,563)**	**(8,563)**	-	(9,780)	(9,780)
Other changes in equity	**220**	**-**	**220**	-	-	-
Balance, September 30	**$3,075,044**	**$295,165**	**$3,370,209**	$2,577,641	$295,277	$2,872,918

See accompanying notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS	First Horizon National Corporation	
	Nine Months Ended September 30	
(Dollars in thousands)(Unaudited)	**2009**	2008
Operating Activities		
Net loss	**$ (205,591)**	$ (126,476)
Adjustments to reconcile net loss to net cash provided/(used) by operating activities:		
Provision for loan losses	**745,000**	800,000
Benefit for deferred income tax	**(95,169)**	(221,764)
Depreciation and amortization of premises and equipment	**24,663**	31,995
Amortization of intangible assets	**4,590**	6,424
Net other amortization and accretion	**33,183**	34,236
Decrease/(increase) in derivatives, net	**151,077**	(33,393)
Market value adjustment on mortgage servicing rights	**(42,662)**	63,769
Provision for foreclosure losses	**94,775**	10,432
Goodwill impairment	**14,027**	-
Loss on divestitures	**-**	18,913
Stock-based compensation expense	**5,359**	5,262
Excess tax benefit from stock-based compensation arrangements	**-**	1,531
Equity securities (gains)/losses, net	**267**	(63,833)
Debt securities gains, net	**-**	(931)
Gains on repurchases of debt	**(12,860)**	(31,515)
Net losses on disposal of fixed assets	**5,907**	23,795
Net (increase)/decrease in:		
Trading securities	**184,481**	76,639
Loans held for sale	**63,967**	2,775,183
Capital markets receivables	**380,983**	(1,127,128)
Interest receivable	**8,222**	24,753
Other assets	**(70,440)**	122,709
Net increase/(decrease) in:		
Capital markets payables	**(572,599)**	1,058,760
Interest payable	**(26,255)**	(38,792)
Other liabilities	**(86,133)**	(300,074)
Trading liabilities	**55,791**	(175,248)
Total adjustments	**866,174**	3,061,723
Net cash provided by operating activities	**660,583**	2,935,247
Investing Activities		
Held to maturity securities:		
Maturities	**-**	240
Available for sale securities:		
Sales	**42,756**	104,940
Maturities	**552,043**	503,984

Purchases	**(69,850)**	(348,888)
Premises and equipment:		
Purchases	**(18,427)**	(37,050)
Net (increase)/decrease in:		
Securitization retained interests classified as trading securities	**60,134**	43,237
Loans	**2,067,162**	272,115
Interest-bearing cash	**41,440**	1,876
Cash payments related to divestitures	**-**	(20,518)
Net cash provided/(used) by investing activities	**2,675,258**	519,936
Financing Activities		
Common stock:		
Exercise of stock options	**3**	511
Cash dividends paid	**-**	(64,069)
Repurchase of shares	**(388)**	(261)
Issuance of common shares	**-**	659,660
Excess tax benefit from stock-based compensation arrangements	**-**	(1,531)
Cash dividends paid - preferred stock - CPP	**(32,616)**	-
Cash dividends paid - preferred stock - noncontrolling interest	**(9,803)**	(11,584)
Long-term debt:		
Issuance	**-**	25,002
Payments/Maturities	**(1,484,294)**	(1,354,261)
Cash paid for repurchase of debt	**(151,910)**	(212,260)
Net increase/(decrease) in:		
Deposits	**(6,807)**	(2,785,070)
Short-term borrowings	**(2,023,923)**	(233,805)
Net cash used by financing activities	**(3,709,738)**	(3,977,668)
Net decrease in cash and cash equivalents	**(373,897)**	(522,485)
Cash and cash equivalents at beginning of period	**1,324,780**	2,259,715
Cash and cash equivalents at end of period	**$ 950,883**	$ 1,737,230
Total interest paid	**201,027**	621,812
Total income taxes paid	**$ 106,886**	$ 183,536

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.

Subsequent Events. Events occurring after the date of the Consolidated Condensed Statements of Condition but before the issuance of the financial statements included in this filing have been evaluated through the time of this filing.

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. 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.

Upon adoption of the provisions of the FASB Codification update to FASB Accounting Standards Codification (ASC) 320-10-35 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 an entity s management assess whether it intends to sell a security or if it is more-likely-than-not that it will be required to sell the security prior to recovery for the debt security when determining other-than-temporary impairment. 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 the amendments to ASC 320-10-35, for impaired debt securities that FHN does not intend to sell and will not 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. Currently, FHN does not have other than temporarily impaired debt securities for which credit losses exist.

Loans Held for Sale and Securitization. In conjunction with the adoption of the provisions of the FASB Codification update to ASC 820-10, 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. Effective September 30, 2009, FHN adopted the provisions of FASB Codification Update 2009-01 which creates ASC 105, Generally Accepted Accounting Principles . ASC 105 establishes the FASB Accounting Standards Codification (the Codification) as the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP, other than guidance issued by the SEC. Under ASC 105, all guidance contained in the FASB Accounting Standards Codification carries an equal level of authority, with ASC 105 superseding all non-SEC accounting and reporting standards which existed as of its effective date. The effect of adopting the provisions of ASC 105 was immaterial to

Note 1 - Financial Information (continued)

FHN. In accordance with ASC 105, all references to authoritative accounting standards have been revised to reflect their Codification citation.

Effective June 30, 2009, FHN adopted the provisions of the FASB Codification update to ASC 825-10-50, which requires disclosures about fair value of financial instruments in interim financial statements. ASC 825-10-50, as amended, 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. Comparative disclosures are required only for periods ending subsequent to initial adoption. Upon adoption of the amendments to ASC 825-10-50, FHN revised its disclosures accordingly.

Effective June 30, 2009, FHN adopted ASC 855-10 which provides general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. ASC 855-10-50 requires disclosure of the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. An assessment of subsequent events must be performed for both interim and annual reporting periods. FHN initially applied the guidance of ASC 855-10 when assessing subsequent events through the time of the filing of the financial statements for the quarter ended June 30, 2009, and the effects of adoption were not material.

In April 2009, the FASB issued a Codification update to ASC 320-10-35 which replaces the intent and ability to hold to recovery indicator of other-than-temporary impairment in ASC 320-10-35 for debt securities. The updated provisions of ASC 320-10-35 specify that a debt security is considered other-than-temporarily impaired when an entity s management intends to sell the security or that it is more-likely-than-not that the entity will be required to sell the security prior to recovery of its cost basis. ASC 320-10-35, as amended, requires that for impaired held-to-maturity and available-for-sale debt securities that an entity does not intend to sell and will not be required 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. ASC 320-10-35, as amended, discusses the proper interaction of its guidance with SEC Staff Accounting BulletinTopic 5M, which provides additional factors that must be considered in an other-than-temporary impairment analysis. ASC 320-10-35, as amended, 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. ASC 320-10-35 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. FHN initially applied the guidance provided in the Codification update to ASC 320-10-35 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 a Codification update to ASC 820-10 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, ASC 820-10 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. ASC 820-10, as amended, 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. The Codification update to ASC 820-10 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. FHN initially applied the guidance provided in the Codification update to ASC 820-10 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 the Codification update to ASC 820 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 ASC 820 s measurement framework to such non-financial assets and liabilities was previously delayed under transitional guidance issued by the FASB. ASC 820, as amended, establishes a hierarchy to be used in performing measurements of fair value. Additionally, the updated provisions of ASC 820 emphasize 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. ASC 820, as amended, also provides expanded disclosure requirements regarding the effects of fair value measurements on the financial statements. The effect of adopting the updated provisions of ASC 820 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

Note 1 - Financial Information (continued)

ASC 820 s Codification update 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 updated provisions of ASC 820 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 ASC 815-10-45. The effect of the change in accounting for these interest rate lock commitments produced a $15.7 million negative effect on first quarter 2008 pre-tax earnings as the $14.2 million positive effect of delivering the loans associated with the commitments existing at the beginning of the quarter was more than offset by a negative impact of $29.9 million for commitments remaining on the balance sheet at quarter end that was previously deferred under the guidance of ASC 815-10-45 until delivery of the associated loans. Second quarter 2008 earnings were positively impacted by a net of $13.7 million as (1) FHN continued to deliver loans that had been commitments upon adoption of the amendments to ASC 820, (2) some commitments existing at March 31, 2008 were delivered as loans during the second quarter 2008 and (3) additional commitments that would have been deferred under the guidance of ASC 815-10-45 were made. Third quarter 2008 earnings were positively impacted by a net $20.8 million as (1) FHN continued to deliver loans that had been commitments upon adoption of the amendments to ASC 820, (2) some commitments existing at June 30, 2008 were delivered as loans during the third quarter 2008 and (3) additional commitments that would have been deferred under ASC 815-10-45 were made. Substantially all commitments existing at August 31, 2008 were sold to MetLife Bank, N.A (MetLife).

Effective January 1, 2009, FHN adopted the provisions of the Codification update to ASC 805 and ASC 810. ASC 805, as amended, 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, the updated provisions of ASC 805 provide that an acquirer cannot specify an effective date for a business combination that is separate from the acquisition date. ASC 805, as amended, 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. ASC 810, as amended, requires that acquired assets and liabilities be measured at full fair value without consideration to ownership percentage. Under the updated provisions of ASC 810, any noncontrolling interests in an acquiree should be presented as a separate component of equity rather than on a mezzanine level. Additionally, ASC 810, as amended, 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. The retrospective application of ASC 810 s presentation and disclosure requirements resulted in an increase to consolidated net income of $2.9 million for third quarter 2008, and $9.8 million for the nine months ended September 30, 2008. FHN also recognized an increase of total shareholders equity of $295.2 million upon adoption of the amendments to ASC 810 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 the provisions of an additional Codification update to ASC 805 which requires 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. ASC 805, as amended, 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, ASC 805, as amended, 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 the Codification update to ASC 805 had no effect on FHN s statement of condition or results of operations.

Effective January 1, 2009, FHN adopted the provisions of the Codification update to ASC 815-10-50 which provides amendments that enhance disclosures related to derivatives accounted for in accordance with ASC 815 and reconsiders existing disclosure requirements for such derivatives and any related hedging items. The additional disclosures provided in ASC 815-10-50, as amended, are required for both interim and annual reporting periods. Upon adoption of the Codification update to ASC 815-10-50, FHN revised its disclosures accordingly.

FHN also adopted the provisions of the Codification update to ASC 860-10 as of January 1, 2009, for initial transfers of financial assets executed after such date. The Codification update amends ASC 860-10 to permit 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. ASC 860-10, as amended, requires that the two

Note 1 - Financial Information (continued)

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 the Codification update to ASC 860-10 was immaterial to FHN.

Effective December 31, 2008, FHN adopted the provisions of the Codification update to ASC 325 which aligns its impairment model for beneficial interests in securitized financial assets with the impairment model in ASC 320, 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 ASC 325, the effect of adopting the Codification update to ASC 325 was immaterial to FHN.

Effective December 31, 2008, FHN adopted the provisions of the Codification update to ASC 810 and ASC 860 which require 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 the Codification update to ASC 810 and ASC 860, FHN revised its disclosures accordingly.

Effective December 31, 2008, FHN adopted the provisions of the Codification update to ASC 815-10-50 which 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 the Codification update to ASC 815-10-50 was immaterial to FHN.

Effective January 1, 2008, FHN adopted the provisions of the Codification update to ASC 825 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 ASC 825, the fair value option may only be elected at the time of initial recognition of a financial asset or liability or upon the occurrence of certain specified events. Additionally, ASC 825 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. ASC 825 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. ASC 825 also provides expanded disclosure requirements regarding the effects of electing the fair value option on the financial statements. Upon adoption of the updated provisions of ASC 825, 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 ASC 825 s amendment of ASC 320, 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 ValueThrough 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 ASC 825. FHN did not elect fair value accounting for any other loan commitments under ASC 825. The prospective application of SAB No. 109 and the prospective election to recognize substantially all new mortgage loan originations at fair value under ASC 825 resulted in a positive impact of $58.1 million on first quarter 2008 pre-tax earnings. Second quarter 2008 earnings were negatively impacted by $20.9 million related to the adoption of SAB No. 109 and the updated provisions of ASC 825 as loans and commitments remaining on the balance sheet at the end of first quarter 2008 were sold. Third quarter 2008 earnings were negatively affected by $35.2 million related to the adoption of SAB No. 109 and the updated provisions of ASC 825 as remaining loans and commitments on the balance sheet were sold either as part of the transaction with MetLife Bank, N.A. or through subsequent deliveries of the mortgage warehouse.

Effective January 1, 2008, FHN adopted the provisions of the Codification update which amended ASC 820 to exclude ASC 840, Leases , from its scope. The adoption of the Codification update to ASC 820 had no effect on FHN s statement of condition or results of operations.

Effective January 1, 2008, FHN adopted the provisions of the Codification update to ASC 715 which 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 the amendments to ASC 715.

Note 1 - Financial Information (continued)

Effective January 1, 2008, FHN adopted the provisions of the Codification update to ASC 815 which 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 the amendments to ASC 815, 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. ASC 815, as amended, 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 the updated provisions of ASC 815, and has revised its disclosures accordingly.

FHN also adopted the provisions of the Codification update to ASC 815-20-25 as of January 1, 2008, for hedging relationships designated on or after such date. The updated provisions of ASC 815-20-25 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 ASC 820. Additionally, ASC 815-20-25, as amended, 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 the adoption date of the amendments to ASC 815-20-25 to determine whether they complied with the revised shortcut criteria at their inception or should be dedesignated prospectively. The adoption of the updated provisions of ASC 815-20-25 had no effect on FHN s financial position or results of operations as all of FHN s preexisting hedging relationships met the requirements of ASC 815-20-25, as amended, at their inception.

Accounting Changes Issued but Not Currently Effective. In August 2009, the FASB issued Accounting Standards Update No. 2009-05, Measuring Liabilities at Fair Value (ASU 09-05). ASU 09-05 updates ASC 820 to clarify that a quoted price for the identical liability, when traded as an asset in an active market, is a Level 1 measurement for that liability when no adjustment to the quoted price is required. ASU 09-05 further amends ASC 820 to provide that if a quoted price for an identical liability does not exist in an active market, the fair value of the liability should be measured using an approach that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Under the updated provisions of ASC 820, for such liabilities fair value will be measured using either a valuation technique that uses the quoted price of the identical liability when traded as an asset, a valuation technique that uses the quoted price for similar liabilities or similar liabilities when traded as an asset, or another valuation technique that is consistent with the principles of ASC 820. The update to ASC 820 is effective for the first reporting period beginning after the issuance of ASU 09-05. The adoption of the Codification update to ASC 820 will not have a material effect on FHN s statement of condition or results of operations.

In June 2009, the FASB issued a Codification update to ASC 860 which provides for the removal of the qualifying special purpose entity (QSPE) concept from GAAP, resulting in the evaluation of all former QSPEs for consolidation on and after January 1, 2010 in accordance with ASC 810. The amendments to ASC 860 modify the criteria for achieving sale accounting for transfers of financial assets and define the term participating interest to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. The updated provisions of ASC 860 also provide that a transferor should recognize and initially measure at fair value all assets obtained (including a transferor s beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. ASC 860, as amended, requires enhanced disclosures which are generally consistent with, and supersede, the disclosures previously required by the Codification update to ASC 810 and ASC 860 which was effective for periods ending after December 15, 2008. The provisions of the Codification update to ASC 860 are effective prospectively for new transfers of financial assets occurring in fiscal years beginning after November 15, 2009, and in interim periods within those fiscal years. ASC 860 s amended disclosure requirements should be applied to transfers that occurred both before and after the effective date of the Codification update, with comparative disclosures required only for periods subsequent to initial adoption for those disclosures not previously required under the Codification update to ASC 810 and ASC 860 which was effective for periods ending after December 15, 2008. FHN is currently assessing the effects of adopting the provisions of the Codification update to ASC 860.

In June 2009, the FASB issued a Codification update to ASC 810 which revises the criteria for determining the primary beneficiary of a variable interest entity (VIE) by replacing the quantitative-based risks and rewards test previously required with a qualitative analysis. While ASC 810, as amended, retains the previous guidance in ASC 810 which requires a reassessment of whether an entity is a VIE only when certain triggering events occur, it adds an additional criteria which triggers a reassessment of an entity s status when an event occurs such

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Note 1 - Financial Information (continued)

that the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity s economic performance. Additionally, the amendments to ASC 810 require continual reconsideration of conclusions regarding which interest holder is the VIE s primary beneficiary. Following the Codification update, ASC 810 will require separate presentation on the face of the balance sheet of the assets of a consolidated VIE that can only be used to settle the VIE s obligations and the liabilities of a consolidated VIE for which creditors or beneficial interest holders have no recourse to the general credit of the primary beneficiary (e.g., consolidated residential mortgage securitization trusts). ASC 810, as amended, also requires enhanced disclosures which are generally consistent with, and supersede, the disclosures previously required by the Codification update to ASC 810 and ASC 860 which was effective for periods ending after December 15, 2008. The provisions of the Codification update to ASC 810 are effective for periods beginning after November 15, 2009 and require reevaluation under ASC 810 s amended consolidation requirements of all QSPEs and entities currently subject to ASC 810 as of the beginning of the first annual period that begins after November 15, 2009. If consolidation of a VIE is required upon initial adoption, the assets, liabilities, and noncontrolling interests of the VIE should be measured at their carrying amounts as if ASC 810, as amended, had been applied from inception of the VIE, with any difference between the net amounts recognized and the amount of any previously recognized interests reflected as a cumulative effect adjustment to undivided profits. However, if determining the carrying amounts is not practicable, the assets, liabilities, and noncontrolling interests of the VIE may be measured at fair value. Further, if determining the carrying amounts is not practicable, and if the activities of the VIE are primarily related to securitizations or other forms of asset-backed financings and the assets of the VIE can be used only to settle obligations of the entity, then the assets and liabilities of the VIE may be measured at their unpaid principal balances. The fair value option provided under ASC 825 may also be elected for financial assets and financial liabilities requiring consolidation as a result of initial adoption, provided that the election is made for all eligible financial assets and financial liabilities of the VIE. If initial application of the amendments to ASC 810 results in deconsolidation of a VIE, any retained interest in the VIE should be measured at its carrying value as if ASC 810, as amended, had been applied from inception of the VIE. Comparative disclosures are required only for periods subsequent to initial adoption for those disclosures not previously required under the Codification update to ASC 810 and ASC 860 which was effective for periods ending after December 15, 2008.

FHN is continuing to assess the effects of adopting the Codification Update to ASC 810 on all of its proprietary residential mortgage securitization trusts based on the size and priority of interests retained. Presented below by the total percentage of denominated financial interests retained in a trust are the aggregate unpaid principal balances as of September 30, 2009, of loans held by FHN s off balance sheet proprietary first lien securitization trusts and off balance sheet HELOC and home equity loan securitization trusts, as well as the nature of FHN s retained interests in such trusts.

Dollars in thousands	Aggregate Unpaid Principal Balance	Nature of Financial Interests Retained (a)
First Lien:		
Less than 1%	$17,339,132	MSR & excess interest
Between 1% and 2%	1,275,366	(b)
Between 2% and 5%	336,082	(c)
Over 5%	35,680	(d)
HELOC and Home Equity Loans:		
N/A	$ 222,836	MSR & residual interest

(a) In addition to the financial interests retained, which are listed in the table above, FHN also retained non-financial interests including repurchase obligations, clean up calls, and required servicing advances for all proprietary securitization trusts.

(b) Interests retained include MSR and excess interest, as well as principal-only strips.

(c) Interests retained include MSR and excess interest, as well as interest-only strips, principal-only strips, and/or subordinated bonds for certain securitizations.

(d) Interests retained include MSR and excess interest, as well as subordinated bonds.

Based on its current level of involvement, upon adoption of the Codification update to ASC 810 proprietary first lien securitization trusts for which FHN retains over 5% of the denominated financial interests will be consolidated by FHN as the retention of MSR and other retained interests, including subordinated bonds, results in FHN being considered the trust s primary beneficiary under the qualitative analysis required by ASC 810, as amended. Additionally, FHN believes that upon adoption of the amendments to ASC 810 it is possible that it will

Note 1 - Financial Information (continued)

consolidate certain proprietary first lien securitization trusts where FHN and its consolidated subsidiaries retain between 2% and 5% of the denominated financial interests, based on the size and priority of the interests retained. Further, the previously off balance sheet HELOC and home equity loan securitization trusts will be consolidated upon adoption of the amendments to ASC 810 as FHN will be considered the primary beneficiary of those trusts based on its retention of MSR and non-denominated residual interests.

In December 2008, the FASB issued a Codification Update to ASC 715 which provides detailed disclosure requirements to enhance the disclosures about an employer s postretirement benefit plan assets currently required by ASC 715-20-50. The amendments to ASC 715 are effective prospectively for annual periods ending after December 15, 2009. FHN is currently assessing the effects of adopting the Codification update to ASC 715.

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Note 2 - Acquisitions/Divestitures

Continuing the efforts to refocus on core businesses, a definitive agreement was reached with Point Capital Partners LLC in third quarter 2009 for the sale of FTN Equity Capital Markets Corp. (FTN ECM), the institutional equity research division of FTN Financial. While the sale is expected to close in fourth quarter 2009 subject to regulatory approval and customary closing conditions, FHN incurred a pre-tax goodwill impairment of $14.0 million (approximately $9 million after taxes) in third quarter 2009. The financial results of FTN ECM, including the third quarter goodwill impairment, are reflected in the Income/loss from discontinued operations, net of tax line on the Consolidated Condensed Statements of Income for all periods presented.

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 ended 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, respectively. 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 ended 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 available for sale securities on September 30, 2009, and 2008:

	On September 30, 2009			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. Treasuries	$ 47,964	$ 361	$ -	$ 48,325
Government agency issued MBS (a)	995,576	58,338	-	1,053,914
Government agency issued CMO (a)	1,029,977	45,776	-	1,075,753
Other U.S. government agencies (a)	116,019	5,753	-	121,772
States and municipalities	46,090	-	-	46,090
Other	2,212	30	(40)	2,202
Equity (b)	297,565	366	(65)	297,866
Total securities available for sale (c)	**$2,535,403**	**$ 110,624**	**$ (105)**	**$2,645,922**

(a) Includes securities issued by government sponsored entities.

(b) Includes investments in FHLB stock of $125.5 million, FRB stock of $66.2 million, remainder is venture capital, money market, and cost method investments.

(c) Includes $2.2 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes. As of

September 30, 2009, FHN had pledged $1.4 billion of the $2.2 billion of available for sale securities as collateral for securities sold under repurchase agreements. Additionally, $46.9 million is restricted pursuant to reinsurance contract agreements.

	On September 30, 2008			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. Treasuries	$ 47,897	$ 134	$ -	$ 48,031
Government agency issued MBS (a)	1,247,796	13,408	(340)	1,260,864
Government agency issued CMO (a)	1,080,662	14,617	(491)	1,094,788
Other U.S. government agencies (a)	133,402	2,118	(200)	135,320
States and municipalities	31,630	44	-	31,674
Other	2,374	-	(239)	2,135
Equity (b)	267,876	51	-	267,927
Total securities available for sale (c)	$ 2,811,637	$ 30,372	$ (1,270)	$2,840,739

(a) Includes securities issued by government sponsored entities.

(b) Includes investments in FHLB stock of $124.0 million, FRB stock of $26.0 million, remainder is 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 September 30, 2008, FHN had pledged $1.4 billion of available for sale securities as collateral for securities sold under repurchase agreements. Additionally, $50.7 million is restricted pursuant to reinsurance contract agreements.

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Note 3 - Investment Securities (continued)

Provided below are the amortized cost and fair value by contractual maturity for the available for sale securities portfolio on September 30, 2009:

	Available for Sale	
(Dollars in thousands)	Amortized Cost	Fair Value
Within 1 year	$ 41,509	$ 41,838
After 1 year; within 5 years	28,382	29,575
After 5 years; within 10 years	99,032	103,625
After 10 years	1,036,725	1,095,063
Subtotal	1,205,648	1,270,101
Government agency issued MBS and CMO	1,029,978	1,075,753
Equity and other securities	299,777	300,068
Total	**$2,535,403**	**$2,645,922**

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

The table below provides information on realized gross gains and realized gross losses on sales from the available for sale portfolio for the nine months ended September 30:

	Available for Sale		
(Dollars in thousands)	Debt	Equity	Total
September 30, 2009			
Gross gains on sales	**$ -**	$ 2,209	$ 2,209
Gross losses on sales	-	(403)	(403)
September 30, 2008			
Gross gains on sales	230	65,939	66,169
Gross losses on sales	-	-	-

Proceeds from the sale of AFS securities generating gains or losses in the first nine months of 2009 and 2008 were $3.9 million and $67.2 million, respectively.

Losses totaling $.5 million and $1.5 million for the nine months ended September 30, 2009 and 2008, respectively, were recognized for securities that, in the opinion of management have been other-than-temporarily impaired. The other-than-temporarily impaired securities are related to cost method investment securities.

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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 September 30, 2009, and 2008:

	On September 30, 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
Other	-	-	140	(40)	140	(40)
Total debt securities	-	-	140	(40)	140	(40)
Equity	-	-	166	(65)	166	(65)
Total temporarily impaired securities	**$ -**	**$ -**	**$ 306**	**$ (105)**	**$ 306**	**$ (105)**

	On September 30, 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
Government agency issued MBS	$ 67,057	$ (340)	$ -	$ -	$ 67,057	$ (340)
Government agency issued CMO	81,425	(491)	-	-	81,425	(491)
Other U.S. government agencies	-	-	22,647	(200)	22,647	(200)
Other	355	(17)	411	(222)	766	(239)
Total debt securities	148,837	(848)	23,058	(422)	171,895	(1,270)
Equity	-	-	-	-	-	-
Total temporarily impaired securities	$ 148,837	$ (848)	$23,058	$ (422)	$ 171,895	$ (1,270)

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 more-likely-than-not that FHN will not be required to sell the securities prior to recovery. Additionally, 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.

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Note 4 - Loans
The composition of the loan portfolio is detailed below:

	September 30		December 31
(Dollars in thousands)	**2009**	2008	2008
Commercial:			
Commercial, financial and industrial	**$ 6,920,916**	$ 7,642,684	$ 7,863,727
Real estate commercial	**1,537,099**	1,492,323	1,454,040
Real estate construction	**1,130,710**	2,020,455	1,778,140
Retail:			
Real estate residential	**7,590,699**	8,192,926	8,161,435
Real estate construction	**361,930**	1,201,911	980,798
Other retail	**124,376**	139,441	135,779
Credit card receivables	**189,452**	194,966	189,554
Real estate loans pledged against other collateralized borrowings	**669,503**	717,192	714,717
Loans, net of unearned income	**18,524,685**	21,601,898	21,278,190
Allowance for loan losses	**944,765**	760,456	849,210
Total net loans	**$17,579,920**	$ 20,841,442	$ 20,428,980

FHN has a significant concentration of loans secured by residential real estate (51 percent of total loans) primarily in three portfolios. The retail real estate residential portfolio including real estate loans pledged against other collateralized borrowings (45 percent of total loans) is 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 Residential CRE portfolio, included in Commercial Real Estate Construction, (4 percent of total loans) has also been negatively impacted by the housing industry downturn as builder liquidity has been severely stressed. The One-Time Close (OTC) portfolio, included in Retail Residential Construction (2 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 size of the Residential CRE and OTC portfolios has significantly declined as FHN continues to wind down the national construction portfolios.

Additionally, on September 30, 2009, FHN had bank-related and trust preferred loans (including loans to bank and insurance-related businesses) totaling $.7 billion (4 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 stress during the economic downturn. On September 30, 2009, FHN did not have any concentrations of Commercial, Financial and Industrial loans in any single industry of 10 percent or more of total loans.

Nonperforming loans consist of loans which management has identified as impaired, other nonaccrual loans, and loans which have been restructured. On September 30, 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:

	September 30		December 31
(Dollars in thousands)	**2009**	2008	2008
Impaired loans	**$ 603,960**	$ 404,458	$ 474,090

Other nonaccrual loans*	**515,759**	495,518	579,558
Total nonperforming loans	**$1,119,719**	$ 899,976	$ 1,053,648

* On September 30, 2009 and 2008, and on December 31, 2008, other nonaccrual loans included $32.3 million, $9.1 million, and $8.5 million, respectively, of loans held for sale.

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Note 4 - Loans (continued)

Generally, interest payments received on impaired and nonaccrual 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 September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2009**	2008	**2009**	2008
Total interest on impaired loans	**$ 454**	$ 167	**$ 1,118**	$ 427
Average balance of impaired loans	**575,829**	388,476	**538,007**	291,809

Activity in the allowance for loan losses related to non-impaired and impaired loans for the nine months ended September 30, 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	626,612	173,388	800,000
Divestitures/acquisitions/transfers	(382)	-	(382)
Charge-offs	(219,760)	(173,581)	(393,341)
Recoveries	10,392	1,446	11,838
Net charge-offs	(209,368)	(172,135)	(381,503)
Balance on September 30, 2008	$ 742,745	$ 17,711	$ 760,456
Balance on December 31, 2008	$ 836,907	$ 12,303	$ 849,210
Provision for loan losses	510,164	234,836	745,000
Charge-offs	(441,523)	(238,530)	(680,053)
Recoveries	26,764	3,844	30,608
Net charge-offs	(414,759)	(234,686)	(649,445)
Balance on September 30, 2009	**$ 932,312**	**$ 12,453**	**$ 944,765**

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Note 5 - Mortgage Servicing Rights

FHN recognizes all 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. See Note 16 Fair Value, the Determination of Fair Value section for a discussion of FHN s MSR valuation methodology. The balance of MSR included on the Consolidated Condensed Statements of Condition represents the rights to service approximately $43.1 billion of mortgage loans on September 30, 2009, for which a servicing right has been capitalized.

In third quarter 2009, FHN reviewed the allocation of fair value between MSR and excess interest from prior first lien loan sales and securitizations. As a result, $11.9 million was reclassified from trading securities to MSR retained from securitizations and $.8 million was reclassified from MSR retained from prior loan sales to trading securities. This reclassification is reflected in the rollforwards below.

Following is a summary of changes in capitalized MSR related to proprietary securitization activities utilizing qualifying special purpose entities (QSPEs) as of September 30, 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	-	-	144
Reductions due to loan payments	(20,079)	(223)	(311)
Changes in fair value due to:			
Changes in valuation model inputs or assumptions	(12,130)	(9)	(362)
Other changes in fair value	-	-	14
Fair value on September 30, 2008	**$198,102**	**$1,197**	**$ 1,745**
Fair value on January 1, 2009	$102,993	$ 981	$ 1,471
Addition of mortgage servicing rights	-	-	11
Reductions due to loan payments	(12,489)	(98)	(241)
Reclassification from/(to) trading securities	11,853	-	-
Changes in fair value due to:			
Changes in valuation model inputs or assumptions	4,270	45	-
Fair value on September 30, 2009	**$106,627**	**$928**	**$ 1,241**

Servicing, late, and other ancillary fees recognized within mortgage banking income were $16.0 million and $20.9 million for the three months ended September 30, 2009, and 2008, respectively, related to securitization activity and $49.7 million and $64.1 million for the nine months ended September 30, 2009, and 2008, respectively. Servicing, late, and other ancillary fees recognized within revenue from loan sales and securitizations were $.2 million and $.3 million for the three months ended September 30, 2009, and 2008, respectively, related to securitization activity and $.7 million and $.9 million for the nine months ended September 30, 2009, and 2008, respectively.

Note 5 - Mortgage Servicing Rights (continued)

Following is a summary of changes in capitalized MSR related to loan sale activity as of September 30, 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	240,676	-	1,001
Reductions due to loan payments	(76,058)	(4,745)	(1,370)
Reductions due to sale	(436,595)	-	-
Changes in fair value due to:			
Changes in valuation model inputs or assumptions	(48,376)	(3,334)	(1,803)
Other changes in fair value	768	6	1,457
Fair value on September 30, 2008	**$572,519**	**$16,330**	**$8,598**
Fair value on January 1, 2009	$ 251,404	$ 12,576	$ 7,419
Addition of mortgage servicing rights	189	-	-
Reductions due to loan payments	(35,768)	(4,003)	(1,464)
Reductions due to sale	(77,591)	(8,134)	(1,548)
Reclassification from/(to) trading securities	(776)	-	-
Changes in fair value due to:			
Changes in valuation model inputs or assumptions	38,347	-	-
Other changes in fair value	(1,387)	483	739
Fair value on September 30, 2009	**$174,418**	**$922**	**$5,146**

Servicing, late, and other ancillary fees recognized within mortgage banking income were $13.6 million and $29.2 million for the three months ended September 30, 2009, and 2008, respectively, related to loan sale activity and $42.8 million and $123.7 million for the nine months ended September 30, 2009, and 2008, respectively. Servicing, late, and other ancillary fees recognized within revenue from loan sales and securitizations were $3.3 million and $3.8 million for the three months ended September 30, 2009, and 2008, respectively, related to loan sale activity and $10.2 million and $12.1 million for the nine months ended September 30, 2009, and 2008, respectively.

FHN services a portfolio of mortgage loans related to transfers performed by other parties utilizing QSPEs. FHN s servicing assets represent its sole interest in these transactions. The total MSR recognized by FHN related to these transactions was $7.2 million and $47.9 million at September 30, 2009, and 2008, respectively. The aggregate principal balance serviced by FHN for these transactions was $1.0 billion and $3.4 billion at September 30, 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 September 30, 2009, FHN had transferred $34.1 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 other short term borrowings and commercial paper in the Consolidated Condensed Statements of Condition as of September 30, 2009.

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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	-	(6,424)
Impairment	-	(4,034)
Divestitures	-	(32)
Additions	-	470
September 30, 2008	$ 192,408	$ 46,887
December 31, 2008	$ 192,408	$ 45,082
Impairment **	(14,027)	(341)
Additions	-	347
Amortization expense	-	(4,590)
September 30, 2009	**$ 178,381**	**$ 40,498**

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

** See Note 2 - Acquisitions/Divestitures for further details regarding goodwill impairment.

The gross carrying amount of other intangible assets subject to amortization is $126.4 million on September 30, 2009, net of $85.9 million of accumulated amortization. Estimated aggregate amortization expense is expected to be $1.5 million for the remainder of 2009, and $5.9 million, $5.7 million, $4.3 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 nine months ended September 30:

(Dollars in thousands)	Regional Banking	Capital Markets	Total
December 31, 2007	$ 77,342	$ 115,066	$ 192,408
September 30, 2008	$ 77,342	$ 115,066	$ 192,408
December 31, 2008	$ 77,342	$ 115,066	$ 192,408
Impairment	-	(14,027)	(14,027)

September 30, 2009	**$ 77,342**	**$ 101,039**	**$178,381**

There is no goodwill associated 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 September 30, 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 19.51 percent, 15.08 percent, and 12.47 percent, respectively, on September 30, 2009, and were 14.65 percent, 10.43 percent, and 8.46 percent, respectively, on September 30, 2008.

	First Horizon National Corporation			First Tennessee Bank National Association		
(Dollars in thousands)	Amount		Ratio	Amount		Ratio
On September 30, 2009:						
Actual:						
Total Capital	$4,754,979		21.61%	$4,532,949		20.82%
Tier 1 Capital	3,563,650		16.20	3,404,528		15.63
Leverage	3,563,650		13.34	3,404,528		12.85
For Capital Adequacy Purposes:						
Total Capital	1,759,961	≥	8.00	1,742,115	≥	8.00
Tier 1 Capital	879,981	≥	4.00	871,058	≥	4.00
Leverage	1,068,442	≥	4.00	1,059,832	≥	4.00
To Be Well Capitalized Under Prompt Corrective Action Provisions:						
Total Capital				2,177,644	≥	10.00
Tier 1 Capital				1,306,587	≥	6.00
Leverage				1,324,790	≥	5.00
On September 30, 2008:						
Actual:						
Total Capital	$4,247,691		16.07%	$4,076,009		15.54%
Tier 1 Capital	2,933,984		11.10	2,844,757		10.84
Leverage	2,933,984		8.84	2,844,757		8.64
For Capital Adequacy Purposes:						
Total Capital	2,114,211	≥	8.00	2,098,531	≥	8.00
Tier 1 Capital	1,057,105	≥	4.00	1,049,264	≥	4.00
Leverage	1,327,049	≥	4.00	1,317,648	≥	4.00

To Be Well Capitalized Under Prompt Corrective Action Provisions:			
Total Capital	2,623,163	≥	10.00
Tier 1 Capital	1,573,898	≥	6.00
Leverage	1,647,060	≥	5.00

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Note 8 - Earnings per Share

The following tables show a reconciliation of the numerators used in calculating earnings per share attributable to common shareholders:

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands, except per share data)	**2009**	2008	**2009**	2008
Loss from continuing operations	**(24,814)**	(120,471)	**(194,435)**	(122,499)
Loss from discontinued operations, net of tax	**(10,200)**	(1,749)	**(11,156)**	(3,977)
Net loss	**(35,014)**	(122,220)	**(205,591)**	(126,476)
Net income attributable to noncontrolling interest	**2,969**	2,875	**8,563**	9,780
Net loss attributable to controlling interest	**(37,983)**	(125,095)	**(214,154)**	(136,256)
Preferred stock dividends	**14,876**	-	**44,688**	-
Net loss available to common shareholders	**(52,859)**	(125,095)	**(258,842)**	(136,256)
Loss from continuing operations	**(24,814)**	(120,471)	**(194,435)**	(122,499)
Net income attributable to noncontrolling interest	**2,969**	2,875	**8,563**	9,780
Preferred stock dividends	**14,876**	-	**44,688**	-
Net loss from continuing operations available to common shareholders	**(42,659)**	(123,346)	**(247,686)**	(132,279)

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

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands, except per share data)	**2009**	2008	**2009**	2008
Weighted average common shares outstanding - basic (a)	**217,186**	217,062	**217,152**	182,858
Effect of dilutive securities (a)	**-**	-	**-**	-
Weighted average common shares outstanding - diluted (a)	**217,186**	217,062	**217,152**	182,858

(a) All share data has been restated to reflect stock dividends distributed through October 1, 2009.

The following table provides a reconciliation of earnings/(loss) per common and diluted share:

Three Months Ended September 30	Nine Months Ended September 30

Earnings/(loss) per share common share:	**2009**	2008	**2009**	2008
Loss per share from continuing operations available to common shareholders	**(0.20)**	(0.57)	**(1.14)**	(0.72)
Loss per share from discontinued operations, net of tax	**(0.04)**	(0.01)	**(0.05)**	(0.02)
Net loss per share available to common shareholders	**(0.24)**	(0.58)	**(1.19)**	(0.74)
Diluted earnings/(loss) per share common share:				
Loss per share from continuing operations available to common shareholders	**(0.20)**	(0.57)	**(1.14)**	(0.72)
Loss per share from discontinued operations, net of tax	**(0.04)**	(0.01)	**(0.05)**	(0.02)
Net loss per share available to common shareholders	**(0.24)**	(0.58)	**(1.19)**	(0.74)

Due to the net loss attributable to common shareholders for the three and nine months ended September 30, 2009, no potentially dilutive shares were included in the loss per share calculations as including such shares would have been antidilutive. Stock options of 13.8 million and 18.1 million with a weighted average exercise price of $29.16 and $30.03 per share for the three months ended September 30, 2009, and 2008, respectively, were excluded. For the nine months ended September 30, 2009, and 2008, stock options of 14.4 million and 18.8 million with a weighted average exercise price of $29.33 and $30.53 per share were also excluded from diluted shares. Other equity awards of 3.5 million and 1.7 million for the three months ended September 30, 2009, and 2008, respectively, and other equity awards of 3.0 million and 1.6 million for the nine months ended September 30, 2009, and 2008, respectively, were also excluded from diluted shares.

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Note 8 - Earnings per Share (continued)

Additionally, 13.7 million potentially dilutive shares related to the CPP common stock warrant were also excluded from the three and nine months ended September 30, 2009, computation of diluted loss per common share because such shares would have been antidilutive.

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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.

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 was 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.

In July 2009, Visa deposited an additional $700 million into the escrow account. Accordingly, FHN reduced its contingent liability by $7.0 million through a credit to noninterest expense.

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 was estimated to approximate 58 percent as of September 30, 2009, 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.

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 subject to potential liabilities and losses in relation to loans that it services, and in relation to loans that it originated and sold. FHN evaluates those potential liabilities and maintains reserves for potential losses. In addition, FHN has arrangements with the purchaser of its national home loan origination and servicing platforms that create

obligations and potential liabilities.
Servicing. FHN services a mortgage loan portfolio of $43.1 billion as of September 30, 2009, a significant portion of which is held by FNMA and private security holders, with less significant portions held by GNMA and FHLMC. In connection with its servicing activities, FHN collects and remits the principal and interest payments on the underlying loans for the account of the appropriate investor. In the event of delinquent or non -payment on a loan in a private or agency securitization: (1) the terms of the private securities agreements require FHN, as servicer, to continue to make monthly advances of principal and interest (P&I) to the trustee for the benefit of the investors; and (2) the terms of the

Note 9 - Contingencies and Other Disclosures (continued)

majority of the agency agreements may require the servicer to make advances of P&I, or to repurchase the delinquent or defaulted loan out of the trust pool. For servicer advances of P&I under the terms of private and FNMA (and GNMA pools) securitizations, FHN can utilize payments of P&I received from other prepaid loans within a particular loan pool in order to advance P&I to the trustee. In the event payments are ultimately made by FHN to satisfy this obligation, P&I advances and servicer advances are recoverable from: (1) in the case of private securitizations, the liquidation proceeds of the property securing the loan and (2) in the case of agency loans, from the proceeds of the foreclosure sale by the Government Agency. 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. Foreclosure exposure arises from certain agency agreements which limit the agency s repayment guarantees on foreclosed loans, resulting in certain foreclosure costs being borne by servicers. Foreclosure exposure also includes real estate costs, marketing costs, and costs to maintain properties, especially during protracted resale periods in geographic areas of the country hard hit by declining home values.

FHN is also subject to losses due to under-compensated servicing expenditures made in connection with the administration of current governmental and/or regulatory loss mitigation and loan modification programs. Additionally, FHN is required to repurchase GNMA loans prior to modification.

Loans Originated and Sold. For many years FHN originated loans, primarily first and second lien home loans, with the intention of selling them. Sometimes the loans were sold with full or limited recourse, but much more often the loans were sold without recourse. For loans sold with recourse, FHN has indemnity and repurchase exposure if the loans default. For loans sold without recourse, FHN has repurchase exposure primarily for defaults occurring within a specified period following the sale, and for claims that FHN breached its representations and warranties made to the purchasers at the time of sale.

FHN has various claims outstanding with government agencies and private investors for cure of loan defects, such as missing title insurance, and for repurchase and/or indemnification. FHN has evaluated its exposure under these obligations based on factors such as breach of representations and warranties, early loan delinquency and default status, foreclosure expectancy rates and indemnification claims and accordingly, reserved for losses of approximately $60.9 million and $36.7 million on September 30, 2009 and 2008, respectively.

FHN has sold certain agency mortgage loans with full recourse under agreements to repurchase the loans upon default. For mortgage insured 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 guaranty. On September 30, 2009 and 2008, FHN had single-family residential loans with outstanding balances of $71.6 million and $83.4 million, respectively, that were serviced on a full recourse basis. On September 30, 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 $3.3 billion at the end of both periods. Additionally, on September 30, 2009 and 2008, $1.1 billion and $.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 September 30, 2009, the outstanding principal balance of these loans was $180.4 million and $42.4 million, respectively. On September 30, 2008, the outstanding principal balance of securitized and sold HELOC and second-lien mortgages was $219.7 million and $57.9 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 $5.0 million and $7.4 million on September 30, 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. In third quarter 2009, FHN settled a substantial portion of its repurchase obligations through an agreement with the primary purchaser of HELOC and second lien loans that were previously transferred through whole loan sales. This settlement included the transfer of retained servicing rights associated with the applicable prior second lien and HELOC loan sales. On

September 30, 2008, the outstanding principal balance of HELOC and second-lien mortgages sold without recourse through whole loan sales was $1.0 billion and $2.0 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 excluded from the above settlement for which there is a breach of representations and warranties provided to the buyers. The remaining repurchase obligation is minimal reflecting the settlement discussed above.

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Note 9 - Contingencies and Other Disclosures (continued)

A wholly-owned subsidiary of FHN has agreements with several providers of private mortgage insurance whereby the subsidiary has agreed to accept insurance risk for specified loss corridors for loans originated in each contract year in exchange for a portion of the private mortgage insurance premiums paid by borrowers (i.e., reinsurance arrangements). The loss corridors vary for each primary insurer for each contract year. No new reinsurance arrangements have been initiated after 2008. In third quarter 2009, FHN agreed to settle certain of its reinsurance obligations with a primary insurer, resulting in a decrease in the reserve balance and the associated trust assets. As of September 30, 2009, FHN has reserved $44.5 million for its estimated liability under the reinsurance arrangements. In accordance with the terms of the contracts with the primary insurers, as of September 30, 2009, FHN has placed $46.9 million of prior premium collections in trust for payment of claims arising under the reinsurance arrangements.

2008 Sale of National Origination and Servicing Platforms. In conjunction with the sale of its servicing platform in August 2008, FHN entered into a three year subservicing arrangement with the purchaser for the unsold portion of FHN s servicing portfolio. As part of the subservicing agreement, FHN has agreed to a make-whole arrangement whereby if the number of loans subserviced by the purchaser falls below specified levels and the direct servicing cost per loan is greater than a specified amount (determined using loans serviced on behalf of both FHN and the purchaser), FHN will make a payment according to a contractually specified formula. The make-whole payment is subject to a cap, which was $19.4 million if determined in the four quarters immediately following the transaction, and which declined to $15.0 million if triggered in the following eight quarters. As part of the 2008 transaction, 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 is likely to make a contribution to the qualified pension plan in December 2009 attributable to the 2009 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 and will be $6.5 million by the end of 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 made a contribution of $.5 million 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 post-retirement medical insurance to retirement-eligible employees. The post-retirement 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 September 30 are as follows:

	Pension Benefits		Other Benefits	
(Dollars in thousands)	**2009**	2008	**2009**	2008
Components of net periodic benefit cost				
Service cost	**$ 1,816**	$ 3,448	**$ 50**	$ 67
Interest cost	**8,008**	7,432	**414**	560
Expected return on plan assets	**(11,582)**	(11,621)	**(291)**	(436)
Amortization of unrecognized:				
Transition obligation	**-**	-	**(1,076)**	247
Prior service cost/(credit)	**190**	215	**1,166**	(44)
Actuarial loss/(gain)	**2,224**	845	**(380)**	(126)
Net periodic benefit cost	**$ 656**	$ 319	**$ (117)**	$ 268
ASC 715 Settlement Expense	**$ -**	$ 111	**$ -**	$ -
Total ASC 715 Expense	**$ 656**	$ 430	**$ (117)**	$ 268

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Note 10 Pension and Other Employee Benefits (continued)

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

	Pension Benefits		Other Benefits	
(Dollars in thousands)	**2009**	2008	**2009**	2008
Components of net periodic benefit cost				
Service cost	**$ 10,619**	$ 11,862	**$ 728**	$ 210
Interest cost	**23,860**	22,117	**2,396**	1,780
Expected return on plan assets	**(34,745)**	(35,204)	**(850)**	(1,314)
Amortization of unrecognized:				
Transition obligation	**-**	-	**740**	741
Prior service cost/(credit)	**569**	648	**1,078**	(132)
Actuarial loss/(gain)	**6,170**	1,831	**(627)**	(242)
Net periodic benefit cost	**$ 6,473**	$ 1,254	**$ 3,465**	$ 1,043
ASC 715 Settlement Expense	**$ -**	$ 826	**$ -**	$ -
Total ASC 715 Expense	**$ 6,473**	$ 2,080	**$ 3,465**	$ 1,043

In third quarter 2009, FHN revised its estimate of annual pension and postretirement expense resulting in a $2.8 million reduction of net periodic benefit cost. The revised estimate and adjustment are reflected in the three and nine months ended September 30, 2009, in the above tables.

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 but was expensed when incurred. A $10.7 million cumulative adjustment related to prior periods is not included in the 2009 net periodic benefit cost presented above. Post-retirement benefits payable to active employees under this plan were modified in third quarter 2009. As a result of this change, FHN recognized a reduction in its benefit liability of $17.1 million with an offset, net of tax, to accumulated other comprehensive income.

In 2008, distributions from a non-qualified post-retirement plan in conjunction with an early retirement triggered settlement accounting. In accordance with its practice, FHN performed a remeasurement of the plan in conjunction with the settlement and recognized $.8 million in settlement expense.

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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, loan sales, portfolio advisory, derivative sales, correspondent banking, and equity research. The operational results of Capital Markets institutional equity research business, FTN ECM, is inlcuded in Capital Markets discontinued operations, net of tax, line item for a all periods presented. Restructuring, repositioning, and efficiency charges from this business are included in discontinued operations within the Corporate segment. 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, gains on the repurchase of debt, unallocated corporate expenses, expense on subordinated debt issuances and preferred stock, bank-owned life insurance, unallocated interest income associated with excess equity, net impact of raising incremental capital, revenue and expense associated with deferred compensation plans, funds management, low income housing investment activities, and venture capital.

Periodically, FHN adapts its segments to reflect changes in expense allocations among segments. For comparability, previously reported items have been revised to reflect these changes. Total revenue, expense, and asset levels reflect those which are specifically identifiable or which are allocated based on an internal allocation method. Because the allocations are based on internally developed assignments and allocations, they are to an extent subjective. This assignment and allocation has been consistently applied for all periods presented. The following table reflects the amounts of consolidated revenue, expense, tax, and assets for each segment for the three and nine months ended September 30:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2009**	2008	**2009**	2008
Consolidated				
Net interest income	**$ 190,901**	$ 223,147	**$ 586,574**	$ 690,134
Provision for loan loss	**185,000**	340,000	**745,000**	800,000
Noninterest income	**303,818**	296,073	**987,347**	1,124,052
Noninterest expense	**349,901**	387,515	**1,160,190**	1,259,773
Loss before income taxes	**(40,182)**	(208,295)	**(331,269)**	(245,587)
Benefit for income taxes	**(15,368)**	(87,824)	**(136,834)**	(123,088)
Loss from continuing operations	**(24,814)**	(120,471)	**(194,435)**	(122,499)
Loss from discontinued operations, net of tax	**(10,200)**	(1,749)	**(11,156)**	(3,977)
Net loss	**$ (35,014)**	$ (122,220)	**$ (205,591)**	$ (126,476)
Average assets	**$ 26,847,829**	$ 33,381,495	**$ 28,734,936**	$ 35,555,364

Regional Banking				
Net interest income	**$ 124,010**	$ 128,170	**$ 372,480**	$ 378,967
Provision for loan loss	**63,066**	58,200	**211,908**	222,942
Noninterest income	**81,369**	88,031	**239,057**	267,920
Noninterest expense	**169,810**	153,926	**506,474**	446,854
Income/(loss) before income taxes	**(27,497)**	4,075	**(106,845)**	(22,909)
Provision/(benefit) for income taxes	**(10,474)**	1,454	**(40,489)**	(8,872)
Income/(loss) from continuing operations	**(17,023)**	2,621	**(66,356)**	(14,037)
Income from discontinued operations, net of tax	**-**	1	**548**	884
Net income/(loss)	**$ (17,023)**	$ 2,622	**$ (65,808)**	$ (13,153)
Average assets	**$ 10,685,376**	$ 11,786,649	**$ 11,142,230**	$ 11,956,404

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 September 30 **2009**	2008	Nine Months Ended September 30 **2009**	2008
Capital Markets				
Net interest income	**$ 20,241**	$ 19,603	**$ 69,188**	$ 58,877
Provision for loan loss	**54,196**	38,451	**89,309**	72,004
Noninterest income	**130,876**	89,414	**520,536**	327,808
Noninterest expense	**86,555**	76,215	**334,057**	268,057
Income/(loss) before income taxes	**10,366**	(5,649)	**166,358**	46,624
Provision/(benefit) for income taxes	**3,840**	(2,264)	**62,476**	17,162
Income(loss) from continuing operations	**6,526**	(3,385)	**103,882**	29,462
Loss from discontinued operations, net of tax	**(1,189)**	(1,496)	**(2,600)**	(4,501)
Net income/(loss)	**$ 5,337**	$ (4,881)	**$ 101,282**	$ 24,961
Average assets	**$ 3,763,121**	$ 4,867,776	**$ 4,157,615**	$ 5,345,696
National Specialty Lending				
Net interest income	**$ 29,608**	$ 45,200	**$ 94,312**	$ 152,869
Provision for loan loss	**79,530**	240,471	**444,460**	497,953
Noninterest income/(loss)	**6,121**	4,122	**(9,627)**	(9,924)
Noninterest expense	**28,189**	26,043	**101,091**	82,066
Loss before income taxes	**(71,990)**	(217,192)	**(460,866)**	(437,074)
Benefit for income taxes	**(27,125)**	(81,838)	**(173,654)**	(164,689)
Net loss	**$ (44,865)**	$ (135,354)	**$ (287,212)**	$ (272,385)
Average assets	**$ 6,028,911**	$ 8,292,693	**$ 6,577,679**	$ 8,839,768
Mortgage Banking				
Net interest income	**$ 7,817**	$ 25,423	**$ 29,612**	$ 93,825
Provision/(benefit) for loan loss	**(11,792)**	2,878	**(677)**	7,101
Noninterest income	**60,775**	112,323	**201,209**	464,048
Noninterest expense	**48,128**	90,485	**159,164**	389,655
Income before income taxes	**32,256**	44,383	**72,334**	161,117
Provision for income taxes	**12,154**	16,723	**27,255**	60,709
Net income	**$ 20,102**	$ 27,660	**$ 45,079**	$ 100,408
Average assets	**$ 1,867,979**	$ 4,534,579	**$ 2,023,103**	$ 5,418,911

Corporate				
Net interest income	**$ 9,225**	$ 4,751	**$ 20,982**	$ 5,596
Noninterest income	**24,677**	2,183	**36,172**	74,200
Noninterest expense	**17,219**	40,846	**59,404**	73,141
Income/(loss) before income taxes	**16,683**	(33,912)	**(2,250)**	6,655
Provision/(benefit) for income taxes	**6,237**	(21,899)	**(12,422)**	(27,398)
Income/(loss) from continuing operations	**10,446**	(12,013)	**10,172**	34,053
Loss from discontinued operations, net of tax	**(9,011)**	(254)	**(9,104)**	(360)
Net income/(loss)	**$ 1,435**	$ (12,267)	**$ 1,068**	$ 33,693
Average assets	**$ 4,502,442**	$ 3,899,798	**$ 4,834,309**	$ 3,994,585

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

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. Subsequent UST regulations have expanded limitations on compensation agreements to include the twenty most highly compensated employees. During the first three years following the issuance, 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 distributed year to date as of October 1, 2009, the Warrant was adjusted to cover 13,748,944 common shares at a purchase price of $9.45 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 as of September 30, 2009, in the amounts of $794.6 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 the FASB Accounting Standards Codification Topic relating to Consolidation (ASC 810-10-45) which provides that noncontrolling interests should be presented as a separate component of equity rather than on a mezzanine level. In accordance with ASC 810-10-45, 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 September 30, 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 ASC 810-10-45, 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 September 30, 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 ASC 810-10-45, 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 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 and nine months ended September 30, 2009 and 2008 which are attributable to FHN as controlling interest holder for the following:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2009**	2008	**2009**	2008
Net loss from continuing operations	**$ (27,783)**	$ (123,346)	**$ (202,998)**	$ (132,279)
Loss from discontinued operations, net of tax	**(10,200)**	(1,749)	**(11,156)**	(3,977)
Net loss	**$ (37,983)**	$ (125,095)	**$ (214,154)**	$ (136,256)

Note 13 - Loan Sales and Securitizations

Historically, FHN 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 related sale of national mortgage origination offices to MetLife, loan sale and securitization activity has significantly decreased. Subsequent to the MetLife transaction, FHN generally no longer retains financial interests in loans it transfers to third parties. 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 third quarter 2009 and 2008, FHN transferred $.3 billion and $4.9 billion, respectively, of single-family residential mortgage loans in sales that were not securitizations. During the nine months ended September 30, 2009, and 2008, FHN transferred $1.1 billion and $19.3 billion, respectively, of single-family residential mortgage loans in sales that were not securitizations. In 2008, the transactions primarily reflect sales to GSE. In third quarter 2009 and 2008, FHN recognized net pre-tax gains of $1.7 million and $19.9 million from the sale of single-family residential mortgage loans which includes gains recognized on the capitalization of MSR associated with these loans. During the nine months ended September 30, 2009, and 2008, FHN recognized net pre-tax gains of $13.0 million and $236.4 million, respectively, from the sale of single-family residential mortgage loans which include gains recognized on the capitalization of MSR associated with these loans.

During third quarter 2009 and 2008, FHN transferred $3.9 million and $4.4 million, respectively, of HELOC related to proprietary securitization transactions. During the nine months ended September 30, 2009, and 2008, FHN has transferred $10.4 million and $15.3 million, respectively, of HELOC related to proprietary securitization transactions. In third quarter 2009 and 2008, FHN recognized net pre-tax gains $.1 million related to HELOC securitizations which include gains recognized on the capitalization of MSR associated with these loans. During the nine months ended September 30, 2009, and 2008, FHN has recognized net pre-tax gains of $.2 million and $.3 million, respectively, related to HELOC securitizations which include gains recognized on the capitalization of MSR associated with these loans.

Retained Interests

Interests retained from loan sales, including GSE securitizations, include MSR and excess interest. Interests retained from proprietary securitizations include MSR and various financial assets (see discussion below). 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.

In certain cases, FHN continues to service and receive servicing fees related to the transferred loans. Generally, FHN received annual servicing fees approximating .28 percent in third quarter 2009 and .27 percent in third quarter 2008 of the outstanding balance of underlying single-family residential mortgage loans. FHN received annual servicing fees approximating .50 percent in third quarter 2009 and 2008 of the outstanding balance of underlying loans for HELOC and home equity loans transferred. MSR related to loans transferred and serviced by FHN, as well as MSR related to loans serviced by FHN and transferred by others, are discussed further in Note 5 Mortgage Servicing Rights. During third quarter 2009, there were no significant additions to MSR.

Other 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 September 30, 2009, and 2008, $52.2 million and $112.3 million, respectively, of excess interest IO are associated with proprietary securitization transactions while the remainder is associated with loan sales. All other retained interests relate to securitization activity.

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Note 13 - Loan Sales and Securitizations (continued)
The sensitivity of the fair value of all retained or purchased MSR to immediate 10 percent and 20 percent adverse changes in assumptions on September 30, 2009, and 2008 are as follows:

(Dollars in thousands except for annual cost to service)	**On September 30, 2009** First Liens	Second Liens	HELOC	On September 30, 2008 First Liens	Second Liens	HELOC
Fair value of retained interests	**$ 281,046**	**$ 1,850**	**$ 6,387**	$ 770,621	$ 17,527	$ 10,343
Weighted average life (in years)	**3.8**	**1.7**	**2.3**	5.2	2.3	2.3
Annual prepayment rate	**21.5%**	**43.4%**	**31.0%**	16.9%	34.7%	35.0%
Impact on fair value of 10% adverse change	**$ (16,887)**	**$ (1,083)**	**$ (313)**	$ (31,588)	$ (1,317)	$ (705)
Impact on fair value of 20% adverse change	**(32,112)**	**(2,060)**	**(598)**	(60,398)	(2,501)	(1,345)
Annual discount rate on servicing cash flows	**12.8%**	**14.0%**	**18.0%**	10.4%	14.0%	18.0%
Impact on fair value of 10% adverse change	**$ (7,470)**	**$ (202)**	**$ (250)**	$ (16,260)	$ (436)	$ (301)
Impact on fair value of 20% adverse change	**(14,505)**	**(395)**	**(470)**	(32,520)	(851)	(584)
Annual cost to service (per loan)	**$ 113**	**$ 50**	**$ 50**	$ 53	$ 50	$ 50
Impact on fair value of 10% adverse change	**(6,544)**	**(189)**	**(85)**	(7,549)	(365)	(290)
Impact on fair value of 20% adverse change	**(13,054)**	**(378)**	**(170)**	(15,098)	(728)	(581)
Annual earnings on escrow	**2.3%**	**3.3%**	**3.3%**	3.6%	2.2%	2.1%
Impact on fair value of 10% adverse change	**$ (4,456)**	**$ (16)**	**$ (80)**	$ (23,103)	$ (308)	$ (174)
Impact on fair value of 20% adverse change	**(8,916)**	**(33)**	**(159)**	(44,635)	(617)	(348)

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Note 13 - Loan Sales and Securitizations (continued)

The sensitivity of the fair value of other retained interests to immediate 10 percent and 20 percent adverse changes in assumptions on September 30, 2009, and 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
September 30, 2009						
Fair value of retained interests	**$ 92,210**	**$ 12,142**	**$ 238**	**$ 1,405**	**$ 2,488**	**$ 2,462**
Weighted average life (in years)	**3.8**	**4.6**	**7.8**	**2.0**	**2.7**	**2.3**
Annual prepayment rate	**21.0%**	**33.2%**	**10.2%**	**6.3%**	**26.3%**	**28.2%**
Impact on fair value of 10% adverse change	**$ (4,887)**	**$ (366)**	**$ (10)**	**$ (24)**	**$ (32)**	**$ (294)**
Impact on fair value of 20% adverse change	**(9,381)**	**(730)**	**(21)**	**(49)**	**(59)**	**(539)**
Annual discount rate on residual cash flows	**10.8%**	**22.6%**	**34.7%**	**142.5%**	**34.9%**	**32.9%**
Impact on fair value of 10% adverse change	**$ (3,734)**	**$ (535)**	**$ (19)**	**$ (83)**	**$ (117)**	**$ (305)**
Impact on fair value of 20% adverse change	**(7,154)**	**(1,026)**	**(39)**	**(157)**	**(221)**	**(559)**
September 30, 2008						
Fair value of retained interests	$251,305	$ 14,335	$ 418	$ 12,511	$ 3,711	$ 3,713
Weighted average life (in years)	5.6	3.9	5.8	5.9	2.6	2.2
Annual prepayment rate	14.3%	23.1%	15.3%	14.3%	30.0%	28.0%
Impact on fair value of 10% adverse change	$ (12,649)	$ (566)	$ (23)	$ (519)	$ (38)	$ (390)
Impact on fair value of 20% adverse change	(24,290)	(1,198)	(45)	(1,020)	(72)	(731)
Annual discount rate on residual cash flows	12.3%	16.3%	12.3%	33.5%	35.0%	33.0%
Impact on fair value of 10% adverse change	$ (9,556)	$ (490)	$ (17)	$ (500)	$ (142)	$ (403)
Impact on fair value of 20% adverse change	(18,418)	(948)	(32)	(961)	(269)	(746)

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 cannot necessarily be extrapolated because the relationship between the change in assumption and the change in fair value may not be linear. Also, in this table, the effect on the fair value of the retained interest caused by a particular assumption variation is calculated independently from all other assumption changes. 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. Subsequent to the MetLife sale, FHN generally no longer retains interests related to loan sales or securitizations. During the three and nine months ended September 30, 2009, additions to MSR were immaterial. The key economic assumptions used to measure the fair value of MSR at the date of securitization or loan sale were as follows during the third quarter 2008.

	First Liens	Second Liens	HELOC
September 30, 2008			
Weighted average life (in years)	4.1-6.3	2.7 - 3.1	1.7 - 1.8
Annual prepayment rate	13.4% - 21.4%	26.0% - 30.0%	43.0% - 44.0%
Annual discount rate	9.8%-11.0%	14.0%	18.0%
Annual cost to service (per loan)	$56 - $66	$50	$50
Annual earnings on escrow	3.5%-3.7%	3.8% - 5.3%	5.3%

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Note 13 - Loan Sales and Securitizations (continued)

There were no securitizations in which FHN retained an interest during the three or nine months ended September 30, 2009. The key economic assumptions used to measure the fair value of other retained interests at the date of securitization were as follows during third quarter 2008.

	Interest IO	Certificated PO	Subordinated Bond
September 30, 2008			
Weighted average life (in years)	5.8	N/A	N/A
Annual prepayment rate	12.4%	N/A	N/A
Annual discount rate	11.8%	N/A	N/A

Cash flows received and paid related to loan sales were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2009**	2008	**2009**	2008
Proceeds from initial sales	**$256,758**	$4,956,106	**$1,102,402**	$19,505,914
Servicing fees retained*	**16,891**	32,970	**53,046**	135,837
Purchases of GNMA guaranteed mortgages	**6,121**	42,208	**7,880**	103,436
Purchases of delinquent or foreclosed assets	**13,562**	9,559	**49,351**	23,507
Other cash flows received on retained interests	**2,082**	4,042	**25,252**	28,271

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

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

Cash flows received and paid related to securitizations were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	**2009**	2008	**2009**	2008
Proceeds from initial securitizations	**$3,987**	$4,462	**$10,671**	$15,574
Servicing fees retained	**16,230**	21,132	**50,383**	65,005
Purchases of delinquent or foreclosed assets	**-**	-	**-**	3,148
Other cash flows received on retained interests	**4,268**	3,919	**34,881**	14,967

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 September 30, 2009, the principal amount of loans transferred through loan sales and securitizations and other loans managed with them, the principal amount of delinquent loans, and the net credit losses during the three and nine months ended September 30, 2009, are as follows:

(Dollars in thousands)	Total Principal Amount of Loans	Principal Amount of Delinquent Loans (a)	Net Credit Losses (b) (c)	
	On September 30, 2009		Three months ended September 30, 2009	Nine months ended September 30, 2009
Type of loan:				
Real estate residential	$ 32,298,124	$ 835,913	$131,006	$ 303,131
Total loans managed or transferred (d)	$ 32,298,124	$ 835,913	$131,006	$ 303,131
Loans sold (e)	(23,668,626)			
Loans held for sale (e)	(369,296)			
Loans held in portfolio	$ 8,260,202			

(a) Loans 90 days or more past due include $.2 million of GNMA guaranteed mortgages. $614.0 million of delinquent loans have been securitized while $32.3 million have been sold.

(b) Principal amount of loans securitized and sold includes $19.5 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) For the three months ended September 30, 2009, $46.3 million associated with securitizations and $12.4 million associated with loan sales; for the nine months ended September 30, 2009, $67.2 million associated with securitizations and $29.4 million associated with loan sales.

(d)

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

(e) $4.2 billion associated with securitizations and $19.8 billion associated with loan sales.

Note 13 - Loan Sales and Securitizations (continued)

As of September 30, 2008, the principal amount of loans transferred through loan sales and securitizations and other loans managed with them, the principal amount of delinquent loans, and the net credit losses during the three and nine months ended September 30, 2008, are as follows:

(Dollars in thousands)	Total Principal Amount of Loans	Principal Amount of Delinquent Loans (a)	Net Credit Losses (b) (c)	
	On September 30, 2008		Three months ended September 30, 2008	Nine months ended September 30, 2008
Type of loan:				
Real estate residential	$ 73,657,580	$ 400,301	$53,151	$ 129,150
Total loans managed or transferred (d)	$ 73,657,580	$ 400,301	$53,151	$ 129,150
Loans sold (e)	(64,206,682)			
Loans held for sale (e)	(540,780)			
Loans held in portfolio	$ 8,910,118			

(a) Loans 90 days or more past due include $.2 million of GNMA guaranteed mortgages. $311.0 million of delinquent loans have been securitized while $9.1 million have been sold.

(b) Principal amount of loans securitized and sold includes $59.2 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) For the three months ended September 30, 2008, $7.3 million associated with securitizations and $18.6 million associated with loan sales; for the nine months ended September 30, 2008, $16.0 million associated with securitizations and $28.2 million associated with loan sales.

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

(e) $5.0 billion associated with securitizations and $59.7 billion associated with loan sales.

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 the ASC s Transfers and Servicing Topic (ASC 860-10-50). As of September 30, 2009, FTBNA had recognized $669.5 million of loans net of unearned income and $661.3 million of other collateralized borrowings in its Consolidated Condensed Statement of Condition related to these transactions. As of September 30, 2008, FTBNA had recognized $717.2 million of loans net of unearned income and $701.2 million of other collateralized borrowings in its Consolidated Condensed Statement 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 ASC s Consolidation Topic (ASC 860-10-50), 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 fair value or 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 ASC 860-10-50. FTBNA determined that the Trusts were VIE s 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.

The following table summarizes VIEs consolidated by FHN:

As of September 30, 2009
(Dollars in thousands)

	Assets		Liabilities	
Type	**Carrying Value**	**Classification**	**Carrying Value**	**Classification**
On balance sheet consumer loan securitizations	$669,503	Loans, net of unearned income	$661,291	Other collateralized borrowings
Small issuer trust preferred holdings	452,850	Loans, net of unearned income	30,500	Term borrowings

Rabbi trusts used for deferred compensation plans	94,830	Other assets	57,099	Other liabilities

As of September 30, 2008
(Dollars in thousands)

	Assets		Liabilities	
Type	**Carrying Value**	**Classification**	**Carrying Value**	**Classification**
On balance sheet consumer loan securitizations	$717,192	Loans, net of unearned income	$701,150	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	143,269	Other assets	88,226	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

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Note 14 - Variable Interest Entities (continued)

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 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 ASC 860-10-50. 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.

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.

Prior to September 30, 2009, wholly-owned subsidiaries of FHN served as investment advisor and administrator of certain fund of funds investment vehicles, whereby the subsidiaries received fees for management of the funds operations and through revenue sharing agreements based on the funds performance. The funds were considered VIEs because the holders of the equity at risk did not have voting rights or the ability to control the funds operations. The subsidiaries did not make any investment in the funds. Further, the subsidiaries were not obligated to provide any financial support to the funds. The funds were not consolidated by FHN because its subsidiaries did not absorb a majority of expected losses or residual returns.

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

As of September 30, 2009

(Dollars in thousands) **Type**	**Maximum Loss Exposure**	**Liability Recognized**	**Classification**
Low Income Housing Partnerships (a) (b)	$ 115,321	$ -	Other assets
Small Issuer Trust Preferred Holdings	43,000	-	Loans, net of unearned income
On Balance Sheet Trust Preferred Securitization	64,377	49,797	(c)
Proprietary Trust Preferred Issuances	N/A	309,000	Term borrowings

(a) Maximum loss exposure represents $112.5 million of current investments and $2.8 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 $49.8 million classified as Other collateralized borrowings.

As of September 30, 2008

(Dollars in thousands) **Type**	**Maximum Loss Exposure**	**Liability Recognized**	**Classification**
Low Income Housing Partnerships (a) (b)	$ 138,776	$ -	Other assets
Small Issuer Trust Preferred Holdings	43,000	-	Loans, net of unearned income
On Balance Sheet Trust Preferred Securitization	65,528	48,646	(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 $120.0 million of current investments and $18.8 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 $48.6 million classified as Other collateralized borrowings.

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Note 15 Derivatives

In the normal course of business, FHN utilizes various financial instruments (including derivative contracts and credit-related agreements) through its mortgage banking, capital markets, and risk management operations, 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 required by GAAP. 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 and master netting agreements whenever possible to limit potential exposure. FHN also maintains collateral posting requirements with its counterparties to limit credit risk. With exchange-traded contracts, the credit risk is limited to the clearinghouse used. For non-exchange traded instruments, credit risk may occur when there is a gain in the fair value of the financial instrument and the counterparty fails to perform according to the terms of the contract and/or when the collateral proves to be of insufficient value. Market risk represents the potential loss due to the decrease in the value of a financial instrument caused primarily by changes in interest rates, mortgage loan prepayment speeds, or the prices of debt instruments. FHN manages market risk by establishing and monitoring limits on the types and degree of risk that may be undertaken. FHN continually measures this risk through the use of models that measure value-at-risk and earnings-at-risk.

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

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

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

On September 30, 2009 and 2008, respectively, FHN had approximately $125.8 million and $32.2 million of cash receivables and $106.5 million and $59.0 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 $20.2 million of assets and $14.1 million of liabilities on September 30, 2009. As of September 30, 2009, FHN had received collateral of $14.6 million posted collateral of $12.6 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 both 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 $154.9 million of assets and $100.3 million of liabilities on September 30, 2009. As of September 30, 2009, FHN had received collateral of $117.5 million and posted collateral of $96.7 million in the normal course of business related to these agreements.

Mortgage Banking

Retained Interests

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

Mortgage Warehouse and Pipeline

As a result of the MetLife transaction, mortgage banking origination activity was significantly reduced in the periods after third quarter 2008 as FHN focuses on origination within its regional banking footprint. Accordingly, the following discussion of warehouse and pipeline related derivatives is primarily applicable to reporting periods occurring through the third quarter 2008. During 2009, FHN attempted economic hedging for only a small portion of the warehouse loans and pipeline. Additionally, the fair value of interest rate lock commitments was immaterial as of September 30, 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 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 the Financial Instruments Topic (ASC 825-10-50), 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 ASC 815-10-45 hedging relationships for all subsequent originations.

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. 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. 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.

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Note 15 Derivatives (continued)

The following table summarizes FHN s derivatives associated with Mortgage Banking activities for the three and nine months ended September 30, 2009:

(Dollars in thousands)				Gains/(Losses)	
Description	**Notional**	**Assets**	**Liabilities**	**Three Months Ended September 30, 2009**	**Nine Months Ended September 30, 2009**
Retained Interests Hedging					
Hedging Instruments:					
Forwards and Futures (a) (b)	$2,220,000	$ 6,130	$ 979	$ 24,848	$ 21,024
Interest Rate Swaps and Swaptions (a) (b)	$2,215,000	$ 42,032	$1,082	$ 38,567	$ 25,491
Hedged Items:					
Mortgage Servicing Rights (c) (b)	N/A	$281,235	N/A	$(30,682)	$ 40,828
Other Retained Interests (d) (b)	N/A	$108,579	N/A	$ (1,951)	$ 34,320
Pipeline and Warehouse Hedging					
Hedging Instruments:					
Forwards and Futures (b)	N/A	N/A	N/A	$ -	$ 510
Hedged Items:					
Mortgage Warehouse (e) (b)	N/A	$272,248	N/A	$ 2,484	$ (5,845) (g)
Mortgage Pipeline (b)	N/A	(f)	(f)	$ -	$ (233) (g)

(a) Assets included in the other assets section of the Consolidated Condensed Statements of Condition. Liabilities included in the other liabilities section of the Consolidated Condensed Statements of Condition.

(b) Gains/Losses included in the mortgage banking income section of the Consolidated Condensed Statements of Income.

(c) Assets included in the mortgage servicing rights section of the Consolidated Condensed Statements of Condition.

(d) Assets included in the trading securities section of the Consolidated Condensed Statements of Condition.

(e) Assets included in the loans held for sale section of the Consolidated Condensed Statements of Condition.

(f) 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 September 30, 2009.

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

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 securities settle on a delayed basis, they are considered forward contracts. Capital Markets also enters into interest rate contracts, including options, caps, swaps, and floors for its customers. In addition, Capital Markets enters into futures contracts to economically hedge interest rate risk associated with a portion of its securities inventory. These transactions are measured at fair value, with changes in fair value recognized currently in capital markets noninterest income. Related assets and liabilities are recorded on the balance sheet as other assets and other liabilities. Credit risk related to these transactions is controlled through credit approvals, risk control limits, and ongoing monitoring procedures through the Credit Risk Management Committee. Total trading revenues related to fixed income sales, which constitutes substantially all of FHN s trading activities, were $120.5 million and $487.6 million for the three and nine months ended September 30, 2009, inclusive of both derivative and non-derivative financial instruments. Trading revenues are included in capital markets noninterest income.

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Note 15 Derivatives (continued)

The following table summarizes FHN s derivatives associated with Capital Markets trading activities as of September 30, 2009:

(Dollars in thousands) **Description**	**Notional**	**Assets**	**Liabilities**
Customer Interest Rate Contracts	$ 1,601,966	$ 50,512	$ 10,233
Offsetting Upstream Interest Rate Contracts	$ 1,601,966	$ 10,236	$ 50,518
Forwards and Futures Purchased	$ 8,407,380	$ 2,049	$ 22,603
Forwards and Futures Sold	$ 8,500,599	$ 21,384	$ 3,543

Capital Markets hedges held-to-maturity trust preferred loans with a principal balance of $233.1 and $244.6 million as of September 30, 2009 and 2008, respectively, which have an initial fixed rate term of five years before conversion to a floating rate. Capital Markets has entered into pay fixed, receive floating interest rate swaps to hedge the interest rate risk associated with this initial five year term. These hedge relationships qualify as fair value hedges under ASC 815-10-45. The balance sheet impact of those swaps was $21.5 million and $9.3 million in other liabilities on September 30, 2009 and 2008, respectively. Interest paid or received for these swaps was recognized as an adjustment of the interest income of the assets whose risk is being hedged. The following table summarizes FHN s derivative activities associated with these loans for the three and nine months ended September 30, 2009.

(Dollars in thousands)				**Gains/(Losses)**	
Description	**Notional**	**Assets**	**Liabilities**	**Three Months Ended September 30, 2009**	**Nine Months Ended September 30, 2009**
Loan Portfolio Hedging					
Hedging Instruments:					
Interest Rate Swaps	$233,083	N/A	$21,499	$(2,271)	$ 4,362
Hedged Items:					
Trust Preferred Loans (a) (b)	N/A	$233,083 (c)	N/A	$ 2,166 (b)	$ (4,479) (b)

(a) Assets included in loans, net of unearned section of the Consolidated Condensed Statements of Condition.

(b) Represents gains and losses attributable to changes in fair value due to interest rate risk as designated in

ASC 815-10-45 hedging relationships.

(c) Represents principal balance being hedged.

<u>Interest Rate Risk Management</u>

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

FHN has entered into pay floating, receive fixed interest rate swaps to hedge the interest rate risk of certain long-term debt obligations, totaling $1.1 billion and $1.2 billion on September 30, 2009 and 2008, respectively. These swaps have been accounted for as fair value hedges under the shortcut method. The balance sheet impact of these swaps was $107.2 million and $38.7 million in other assets on September 30, 2009 and 2008, respectively. Interest paid or received for these swaps was recognized as an adjustment of the interest expense of the liabilities whose risk is being managed.

FHN designates derivative transactions in hedging strategies to manage interest rate risk on subordinated debt related to its trust preferred securities. These qualify for hedge accounting under ASC 815-10-45 using the long haul method. FHN entered into pay floating, receive fixed interest rate swaps to hedge the interest rate risk of certain subordinated debt totaling $.2 billion on September 30, 2009, and $.3 billion on September 30, 2008. The balance sheet impact of these swaps was $2.6 million and $13.6 million in other liabilities on September 30, 2009 and 2008, respectively. There was no ineffectiveness related to these hedges. Interest paid or received for these swaps was

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Note 15 Derivatives (continued)

recognized as an adjustment of the interest expense of the liabilities whose risk is being managed. In first quarter 2009, FHN s counterparty called the swap associated with $.1 billion of subordinated debt. Accordingly, hedge accounting was discontinued on the date of settlement and the cumulative basis adjustments to the associated subordinated debt are being prospectively amortized as an adjustment to yield over its remaining term.

The following table summarizes FHN s derivatives associated with interest rate risk management activities:

(Dollars in thousands) Description	Notional	Assets	Liabilities	Gains/(Losses) Three Months Ended September 30, 2009	Gains/(Losses) Nine Months Ended September 30, 2009
Customer Interest Rate Contracts Hedging					
Hedging Instruments and Hedged Items:					
Customer Interest Rate Contracts (a)	$1,187,275	$ 82,338	$ 367	$ 3,151	$ (41,118)
Offsetting Upstream Interest Rate Contracts (a)	$1,187,275	$ 367	$ 85,538	$ (8,262)	$ 34,215
Debt Hedging					
Hedging Instruments:					
Interest Rate Swaps (b)	$1,200,000	$107,192	$ 2,604	$ 16,792	$ (41,374)
Hedged Items:					
Long-Term Debt (b)	N/A	N/A	$1,200,000 (c)	$(16,792) (d)	$ 41,374 (d)

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

(b) Gains/Losses included in the all other income and commissions section of the Consolidated Condensed Statements of Income.

(c) Represents par value of long term debt being hedged.

(d) Represents gains and losses attributable to changes in fair value due to interest rate risk as designated in ASC 815-10-45 hedging relationships.

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Note 16 - Fair Value of Assets & Liabilities

Effective January 1, 2008, FHN elected the fair value option on a prospective basis for almost all types of mortgage loans originated for sale purposes upon adoption of the Financial Instruments Topic of the FASB Accounting Standards Codification (ASC 825-10-50). FHN determined that the election reduced certain timing differences and better matched changes in the value of such loans with changes in the value of derivatives used as economic hedges for these assets. No transition adjustment was required upon adoption of ASC 825-10-50 as FHN continued to account for mortgage loans held for sale which were originated prior to 2008 at the lower of cost or market value. Mortgage loans originated for sale are included in loans held for sale on the Consolidated Condensed Statements of Condition. Other interests retained in relation to residential loan sales and securitizations are included in trading securities on the Consolidated Condensed Statements of Condition. Additionally, effective January 1, 2008, FHN adopted the FASB Accounting Standards Codification Topic for Fair Value Measurements and Disclosures (ASC 820-10-50) for existing fair value measurement requirements related to financial assets and liabilities as well as to non-financial assets and liabilities which are re-measured at least annually. Effective January 1, 2009, FHN adopted the provisions of ASC 820-10-50 for existing fair value measurement requirements related to non-financial assets and liabilities which are recognized at fair value on a non-recurring basis.

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

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

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

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

For applicable periods, all divestiture-related line items in the Consolidated Condensed Statements of Condition have been combined with the related non-divestiture line items in preparation of the disclosure tables in this footnote. Derivatives in an asset position are included within Other Assets while derivatives in a liability position are included within Other Liabilities. Derivative positions constitute the only recurring Level 3 measurements within Other Assets and Other Liabilities.

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Note 16 - Fair Value of Assets & Liabilities (continued)

The following tables present the balances of assets and liabilities measured at fair value on a recurring basis as of September 30, 2009, and 2008:

	September 30, 2009			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Trading securities - Capital Markets:				
U.S. Treasuries	$ -	$ 93,238	$ -	$ 93,238
Government agency issued MBS	-	120,713	-	120,713
Government agency issued CMO	-	34,395	-	34,395
Other U.S. government agencies	-	45,095	-	45,095
States and municipalities	-	17,871	-	17,871
Corporate and other debt	-	277,817	34	277,851
Equity, mutual funds and other	11	925	12	948
Total trading securities - Capital Markets	11	590,054	46	590,111
Trading securities - Mortgage Banking	-	12,142	98,899	111,041
Loans held for sale	-	35,606	219,289	254,895
Securities available for sale:				
U.S. Treasuries	-	48,325	-	48,325
Government agency issued MBS	-	1,053,914	-	1,053,914
Government agency issued CMO	-	1,075,753	-	1,075,753
Other U.S. government agencies	-	21,548	100,224	121,772
States and municipalities	-	44,590	1,500	46,090
Corporate and other debt	837	-	1,365	2,202
Equity, mutual funds and other	36,742	46,900	15,803	99,445
Total securities available for sale	37,579	2,291,030	118,892	2,447,501
Mortgage servicing rights	-	-	289,282	289,282
Other assets	35,984	316,109	-	352,093
Total assets	$ 73,574	$ 3,244,941	$ 726,408	$ 4,044,923
Trading liabilities Capital Markets:				
U.S. Treasuries	$ -	$ 246,532	$ -	$ 246,532
Government agency issued MBS	-	1,137	-	1,137
Other U.S. government agencies	-	3,338	-	3,338
Corporate and other debt	-	164,286	-	164,286
Total trading liabilities Capital Markets	-	415,293	-	415,293
Other short-term borrowings and commercial paper	-	-	34,050	34,050
Other liabilities	979	197,987	-	198,966

Total liabilities	$ 979	$ 613,280	$ 34,050	$ 648,309

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Note 16 - Fair Value of Assets & Liabilities (continued)

	September 30, 2008			
(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Trading securities	$ 2,159	$ 1,272,453	$ 286,412	$ 1,561,024
Loans held for sale	-	334,112	10,117	344,229
Securities available for sale	35,800	2,507,114	147,820	2,690,734
Mortgage servicing rights	-	-	798,491	798,491
Other assets	83,133	257,814	329	341,276
Total assets	$ 121,092	$ 4,371,493	$ 1,243,169	$ 5,735,754
Trading liabilities	$ 114	$ 380,782	$ -	$ 380,896
Commercial paper and other short-term borrowings	-	-	107,266	107,266
Other liabilities	14,328	136,488	61	150,877
Total liabilities	$ 14,442	$ 517,270	$ 107,327	$ 639,039

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Note 16 - Fair Value of Assets & Liabilities (continued)
Changes in Recurring Level 3 Fair Value Measurements

In third quarter 2009, FHN reviewed the allocation of fair value between MSR and excess interest from prior first lien loan sales and securitizations. As a result, $11.1 million was reclassified from trading securities to MSR within level 3 assets measured at fair value on a recurring basis.

In first quarter 2009, FHN changed the fair value methodology for certain loans held for sale. The methodology change had a minimal effect on the valuation of the applicable loans. Consistent with this change, the applicable amounts are presented as a transfer into Level 3 loans held for sale in the following rollforwards. See Determination of Fair Value for a detailed discussion of the changes in valuation methodology.

In third quarter 2008, FHN revised its methodology for valuing hedges of MSR and excess interest that were retained from prior securitizations. Consistent with this change, the applicable amounts are presented as a transfer out of net derivative assets and liabilities in the following rollforwards for the three and nine month periods ended September 30, 2008. See Determination of Fair Value for a detailed discussion of the changes in valuation methodology.

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

	Three Months Ended September 30, 2009					
			Securities available for sale			
(Dollars in thousands)	Trading securities (a)	Loans held for sale	Investment portfolio	Venture Capital	Mortgage servicing rights, net	Other short-term borrowings and commercial paper
Balance on June 30, 2009	$125,502	$ 224,372	$ 104,658	$ 18,771	$337,096	$ 39,720
Total net gains/(losses) included in:						
Net income	(1,345)	2,484	-	37	(35,993)	(5,670)
Other comprehensive income	-	-	1,718	-	-	-
Purchases, sales, issuances, and settlements, net	(14,135)	(7,567)	(4,652)	(1,640)	(22,898)	-
Net transfers into/(out of) Level 3	(11,077)	-	-	-	11,077	-
Balance on September 30, 2009	$					